

# THE DEPARTMENT OF VETERANS AFFAIRS HEALTH CARE BUDGET

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## HEARING

BEFORE THE

## COMMITTEE ON VETERANS' AFFAIRS

## HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

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JUNE 30, 2005

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**THE DEPARTMENT OF VETERANS AFFAIRS  
HEALTH CARE BUDGET**

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**THURSDAY, JUNE 30, 2005**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON VETERANS' AFFAIRS,  
*Washington, D.C.*

The Committee met, pursuant to notice, at 10:08 a.m., in Room 334, Cannon House Office Building, Hon. Steve Buyer [Chairman of the Committee] presiding.

Present: Representatives Buyer, Bilirakis, Stearns, Moran, Mr. Brown of South Carolina, Miller, Boozman, Bradley, Brown-Waite, Turner, Evans, Filner, Ms. Brown of Florida, Snyder, Michaud, Hersheth, Strickland, Hooley, Reyes, Berkley, and Udall.

**OPENING STATEMENT OF CHAIRMAN BUYER**

THE CHAIRMAN. The full Committee hearing of the House Veterans' Affairs Committee Oversight Hearing on VA Budget Modeling and Methodologies, June 30, 2005, will come to order.

We're here this morning to identify fiscal year 2005 funding requirements for the VA health system and to develop the picture for 2006, 2007, 2007, and beyond.

In a continuation of last week's robust discussion with Dr. Perlin, we will further examine the process used by VA to forecast health care demand among America's veterans, so that we can ensure both today's veterans and the veterans of the future have a sound health care system.

I want to thank Secretary Jim Nicholson for his leadership over the last week, as we have worked through this challenge. We recognize that you have inherited a pretty tough problem. It's clear to me that Secretary Nicholson and the Bush administration in your response to this are very serious about caring for America's veterans.

And, to Under Secretary Perlin, who is in the trenches of the VA's health administration, I offer and extend my gratitude to you for stepping up to the plate, and your candor, not only in public, but also in private.

As Chairman, getting the VA budget right is about the most important thing that I can do. It's the most important this Committee can do. Without a good budget, how can we provide the good health care for our nation's veterans? So we're going to get it right.

This entire Committee is committed to working closely with you and your staff as we move forward in developing an accurate budget for the department, not just here in 2005, in your final quarter, but also in 2006 with whatever may be required for a budget amendment on 2006 that can be developed with you through the August, maybe even into the September time frame, as we finalize the 2006 budget.

Earlier, I had made some comments, not only at a press conference but also in particular at a hearing last week, that in this town, everybody seems to have a number with regard to the VA budget.

So the American Legion has a number. The Independent Budget has a number. VA comes up with a number. OMB comes up with a number. Lane Evans has a number. We've got a number. Everybody seems to have a number.

MR. EVANS. Except ours is right.

THE CHAIRMAN. What we learned is that you have individuals whom you consult, actuaries on contract. We learned that the model that you use is a model that is also similarly used by the private sector, but we stress the model. And we use bad data. And perhaps the assumptions were not right. And they weren't right. Improper variances give a bad result.

So over the last four or five years, we were pretty fortunate to get it pretty close. This year, we're pretty far off.

Recognizing that the 2005 budget was crafted using data in 2002, we weren't even in the war in Iraq in 2002. So while we're looking at today, Mr. Secretary, we recognize that we want to work directly with you, and we're going to extend our oversight to make sure we get this model correct in 2006 and 2007, and the budgets beyond.

And if you're not able to do the risk adjustments, are not able to do these changes, we're going to have to do it. We just want to make sure that we get the dollars accurate.

I know that Chairman Walsh and Chet Edwards, the Ranking Member on appropriations, feel the same way.

I did have to say to Chet last night, Chet Edwards, my good friend, I asked him what the power ball was, and he said -- you know, he gave me a funny look -- "Why?"

And I said, "Tell me what the power ball number is."

And he said, "I don't understand."

And I said, "Well, if you can be more accurate in guessing what the VA budget number would be than the VA, then you should know what the power ball number is."

So I extended him some congratulations.

It's also kind of interesting that when I look at your model, and

the sophistication of your model, and I look at what the Independent Budget did, and when I look at what the American Legion did in an unsophisticated process, they were more accurate. They were more accurate than you. And that's the reality of where we are.

I appreciate your coming here today. We're most interested in hearing about these work-around solutions, and we're also most interested in hearing what you have to say today and any requests you may have of us to take action.

THE CHAIRMAN. I yield now to Mr. Evans.

### OPENING STATEMENT OF MR. EVANS

MR. EVANS. Thank you, Mr. Chairman.

I also look forward to working with you to develop why we got into this situation, what your plans are for addressing this shortfall this year and next.

I also want to hear from the VA as to what it plans to do to prevent this from ever happening again.

I disagree with comments made by the Secretary earlier this week. This is certainly a problem, and definitely a crisis.

I'm angry, and I know many of my colleagues are angry. This is an issue of credibility -- the credibility of what you tell us here in Congress and the credibility of the budgetary process involving the VA.

You blame your budgetary model, but year after year you underestimate in your February budget submissions the number of veterans who will seek care. I don't understand why you are expressing surprise when you've underestimated this again.

VA assures us that this is a \$1 billion shortfall that is not affecting adequate care to our veterans. That's not correct.

The Democratic staff have compiled a snapshot of how this shortfall has been affecting patient care, and I ask that it be entered into the record, Mr. Chairman.

THE CHAIRMAN. Without objection.

[The information appears on p. 98]

MR. EVANS. We are still awaiting answers from your February budgetary hearing, and I'm still waiting for the answers to a simple survey we sent out months ago to gauge the fiscal health of the networks. The answers to these questions in the survey have been held by the VA, and they won't release them.

Yet, Secretary Nicholson, you told us in February that the VA's information was our information. It doesn't seem like that's been the case.

We found out about this shortfall at last week's hearing. It appears you knew about it in April. You claim that you have been "forthcoming," but this has clearly not been the case.

You are doing no one any favors, least of all the VA, by not leveling with us. We need honesty and accuracy from the VA so that we can get our job done and help you, as well, in your job.

I think we've got a lot of work here to do, Mr. Chairman. I appreciate your holding this hearing, and look forward to working with you.  
[The statement of Hon. Lane Evans appears on p. 62]

THE CHAIRMAN. Thank you, Mr. Evans.  
Would anyone else like to make an opening statement?  
Mr. Filner?

#### OPENING STATEMENT OF MR. FILNER

MR. FILNER. Thank you, Mr. Chairman.  
Thank you, Mr. Secretary, for being here.

Mr. Chairman, I found your opening comments bordering on the irresponsible.

You said we have to get the budget right. We've been trying to do that for months, in fact for years. You laughed at us. You laughed at the Independent Budget. Now you're comparing the Independent Budget with power ball figures.

If you look at the record, the Independent Budget has been right for years and years and years. It's a professional analytic job. Those of us who have used it have turned out to be right, and you ought to admit it, rather than just saying all of a sudden that we ought to get it right.

We've been telling you this for months and months. We've tried on the floor of the House to raise the budget. We have been ruled out of order. We've tried in Committees to do it. We tried it yesterday in the House to do it, and we've been ruled out of order each time.

You talked about the Secretary's leadership. I cannot believe you used that word. We not only were not kept informed of the shortfall here. The Secretary has said, and I assume he's going to say again today, "There's no crisis here, there's no diminution in quality."

We have lists and lists and lists of shortfalls at every single medical center in this nation. We have testimony of veterans who have to wait for months and months in line.

In San Diego where I am, there's nearly 1,000 veterans waiting for their appointment. There's 231 vacancies. And you're telling the Secretary that's leadership?

This Secretary ought to resign because of the way he dealt with us in this situation, and how he's handling this crisis. He is not a leader. He is failing the veterans, he's failing this nation, and I think he ought to inform us today of his resignation.

Thank you, Mr. Chairman.

THE CHAIRMAN. Mr. Stearns?



MR. STEARNS. Yes, Mr. Chairman, thank you. Just allow me to say a few words.

I appreciate the Secretary coming up here, and this is the first opportunity I've had to talk to him, and I appreciate his honesty and his staff, forthright in trying to give us the information we need.

You know, I guess some of the questions we now have, with the Senate passing approval of \$1.5 billion yesterday in emergency funding, is that all you need, and can you project in the future what else you'll need?

So I guess getting a firm handle on a number, and how much is contributing to this, the Reservists and the Guardsmen, perhaps even discussing with us what the actuarial model that you're using, does it just continue to miss the mark, or does it have to be modified?

You know, I think many of us follow these hearings, and I know that Dr. Perlin on April 12th, who was the under secretary for health, he wrote to the Senate VA Committee:

"We do feel confident that the VHA has sufficient resources for the remainder of 2005."

So those are his quotes in April 2005, April 12th.

And so then we suddenly hear about this. It makes us a little concerned.

So I know that you welcome like we do the opportunity to explain.

Thank you, Mr. Chairman.

THE CHAIRMAN. Thank you. Mr. Michaud.

#### OPENING STATEMENT OF MR. MICHAUD

MR. MICHAUD. Thank you, Mr. Chairman.

Mr. Secretary, I'm very disturbed by VA's recent disclosure of a huge budget shortfall. VA hospitals across the nation are using drastic cost-cutting measures to cover the shortfall.

I do not agree with you that the VA can continue to provide timely highly qualified health care for veterans with this budget.

I do not agree with you that siphoning off funds from medical equipment and vital maintenance is simply, as you put it, and I quote, "deferring non-critical capital expense for a few months."

For example, the VA hospital in Vermont had to shut its three operating rooms this Monday because the heating/ventilation/air conditioning system was broken and has not been repaired because maintenance dollars were transferred to cover the budget shortfall.

The failure to repair needed equipment is hurting patient care and safety. The cost-cutting measures are not just putting off maintenance and buying medical equipment. VA managers across the nation are deliberately delaying the hiring of key clinical staff by at least three months just to cover the shortfall.

Mr. Secretary, veterans are being left behind now under your

watch, because the VA is putting them on a waiting list and eliminating services to cover huge budgetary holes.

These drastic actions are not, as you said, simply part of good government. Your approach to the shortfall is hurting veterans, and it's wrong. A better approach, and the only approach, is to assure funding for veterans' health care.

I do not buy the argument putting the blame on poor modeling. You've known, and this Committee has known, and we've stated over and over again, the cost of this war has an added cost -- taking care of our veterans.

I do not know, it appears you have not been listening about the cost of the war as it relates to the veterans.

This is not a Democratic issue or a Republican issue. This is an issue about taking care of our veterans.

I've been reading articles recently. Members of the other party, Senator Larry Craig, and I quote:

"It was frustrating to me and an embarrassment."

Jim Walsh talks about the Congress needs to provide additional resources now because we're at war.

The Chair of the House Appropriations Committee, Jerry Lewis says, and I quote -- about the administration withholding the information, and I quote:

"It borders on stupidity."

It might not be a crisis to you. If this administration thinks Social Security is in crisis because it lacks the funding beyond 2052, the Veterans Administration lacks funding today, and it might not be a crisis to you, but it is for those veterans who need the services today. If it's not a crisis to some of them, it definitely is hurting some of them.

I implore you, Mr. Secretary, and I look forward to your testimony, to correct this problem that we currently are facing, and it is a problem.

And I know, Mr. Secretary, you served as Republican National Committee Chairman. This is not a partisan position. It's okay when you were party chair, but this is not a partisan position.

Caring for our veterans who put their lives on the line is extremely important, and this Committee and members of both sides of the aisle have come together in the past to help our veterans.

Your predecessor worked with both sides of the aisle on this issue, putting veterans first, ahead of politics, and I hope that you will do the same. Your record has not shown that, and during the questions, I will ask you specific questions, and I'll expect they're worded in such a manner that you can give a yes or no answer.

You have, in my opinion, disappointed a lot of members of both sides of the aisle. You have a lot of explaining, and I, and I know members of both sides, would respect you more if you will be up front

with us, honest with us, and do not try to push the blame on modeling. The buck stops, initially, with you, and ultimately, with the President of the United States.

So I look forward to your testimony, Mr. Secretary.

THE CHAIRMAN. Thank you, Mr. Michaud.

Mr. Moran, you're now recognized for an opening statement.

## OPENING STATEMENT OF MR. MORAN

MR. MORAN. Mr. Chairman, thank you very much. I appreciate your holding the hearing today.

Mr. Secretary, thank you for your willingness to appear before our Committee today, and I hope we can have a worthwhile discussion.

Last week in this room it was revealed that the department is failing in funding our veterans' health care in fiscal year 2005, and since then we've learned that the budget situation for the coming fiscal year is even more difficult, which I think likely will impair the ability of the VA to meet the needs of veterans in coming years.

America's veterans, as you know and I know you believe this, deserve the very best, and I strongly believe that the VA health care system must be available for all veterans and to provide them with nothing less than excellent service.

Clearly, inadequate resources threaten to harm the quality of the service the VA provides and hinders our ability to meet our commitments to those who honorably served.

It is imperative that we act to rectify this problem. I think this means that initially we need to gain accurate numbers, exactly how much funding is needed to meet the current demands, and then we must provide the necessary appropriations to meet those demands.

I call upon my colleagues in the administration to fully fund veterans' health care. Making up for the shortfall by allaying spending or borrowing money only serves to postpone the problem while reducing the quality of service.

Immediate action is needed to ensure that the VA fulfills its mission that all veterans receive health care that they have earned, and as public servants, we have the responsibility to set aside partisanship to keep this promise.

As more and more of our troops return home from combat, we must make certain that we do what needs to be done to fix this problem in the coming years so that the situation does not reoccur, and I'm concerned that current forecasting models used to determine demand and develop budgets has proven inadequate.

This process needs to be examined to ensure that Congress and the Department have accurate information from which we can make sound budget decisions.

Mr. Secretary, I welcome your testimony on this topic, and I look

forward to working with you and your colleagues in the department to see that we meet the needs of our nation's veterans.

Thank you, sir.

Thank you, Mr. Chairman.

THE CHAIRMAN. I thank the gentleman for his opening statement.

Mr. Strickland, you're recognized for an opening statement.

## OPENING STATEMENT OF MR. STRICKLAND

MR. STRICKLAND. Thank you, Mr. Chairman.

Mr. Secretary, I come from southern Ohio, and down there we have a saying about the chickens finally coming home to roost, and I think that's what we're experiencing here as we consider the shortfall of the VA budget.

The fact is that people are beating up on you, and I guess I can kind of understand that, but the ultimate person responsible for what we face here is the President of the United States.

He's the Commander in Chief. He makes decisions about war and peace, sending our soldiers into battle.

And the fact is that none of us are really surprised at what's happened here.

We sent our soldiers to war without body armor. Poor planning. Lack of planning.

It took months and months and months for our soldiers to have access to armored humvees, and I think probably even today there are soldiers in Iraq and Afghanistan that are not properly equipped. Just absolutely egregious mistakes in planning.

I'm not surprised about this. Our former Secretary sat right where you're sitting, sir, and told us that he had asked the President for \$1 billion more than the President was willing to include in his budget for VA health care. He's no longer with us.

Our former Chairman of this Committee, Chris Smith, served on this Committee for 24 years, almost a quarter of a century, was stripped of his chair's position and purged from this Committee because he spoke out regarding the inappropriate or inadequate funding for VA health care. We all know that. Everyone of us sitting here knows that.

So why should we be surprised? We're not surprised.

Management efficiencies were built into the budget. No one said how these management efficiencies were going to actually save money, but they were built into the budget as a way to provide fewer resources.

And now the President apparently is going to continue to ask us -- it's not going to happen -- to increase the cost of prescription drugs for our veterans, and to impose an annual user fee on our veterans, and to create categories of veterans that are excluded from VA health

care, even some who may be combat decorated veterans.

Now we've got a shortfall this year. I think it's going to be take care of. Thank God for what the Senate did yesterday. I hope the House takes action today.

But what about next year? Well, we're being told that next year the budget shortfall may be \$1.6 billion, but that's assuming that the President is going to get the onerous increases that he wants to place on the backs of veterans in terms of user fees, and it's not going to happen.

This Congress -- my Republican friends are not going to support that. You might as well just get that out of the budget request. It's not going to happen.

This Congress is not going to, during a time of war, increase the cost of medicines or -- it's just not going to happen. And so we're really talking about next year probably over \$2.5 billion in shortfall.

What we're asking is just some honest information. That's all we're asking for.

And I would just close my remarks, Mr. Secretary, by saying this.

We hear a lot of talk in this town about morality. We really do. We talk about morality in terms of stem cell research and morality in terms of abortion and morality in terms of gay marriage.

I wish we would talk about morality in terms of keeping our promises to the men and women who have fought our wars, served our country, sacrificed their bodies, and too many times families have actually lost loved ones. That's a moral issue.

It's a moral issue if we choose to give tax breaks to the richest people in this country, many like me, who have never served. We give tax breaks to them, and we shortchange our veterans. I think that's a moral issue.

I wish the President would accept responsibility as the commander in chief to not only look after our soldiers when they're on active duty, but to also assume responsibility for those once they've come home.

Thank you, Mr. Secretary.

THE CHAIRMAN. Mr. Brown, you're recognized for an opening statement.

## OPENING STATEMENT OF MR. BROWN OF SOUTH CAROLINA

MR. BROWN OF SOUTH CAROLINA. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for joining us here today to further explore the budget shortfall for the remainder of fiscal year 2005 and additional actuarial and budgetary challenges for future years.

I think it is fair to say that last week's testimony provided by Dr. Perlin, the under secretary of health at VA, came as a bit of a surprise to us on this Committee.

Certainly the extent to which the department has already pro-

grammed 2006 rollover funds and capital assets funds should be of concern to all of us here.

I hope that, through your appearance here, Mr. Secretary, that you can provide us with a more concentrated look at the VA's current year's funding requirements in hard dollars and provide us some reassurance that a more permanent and reliable dialogue can be established between this Committee and the administration so that we might avert a similar situation in the future.

As I mentioned during last week's hearing, the numbers that we discuss here are important, because there are real consequences in all of our districts. The consequences of underestimating the funding requirements in my mind is something unacceptable.

Again, I thank you, Mr. Chairman, for digging deep on this issue, and having the courage to address this in a head-on way.

Mr. Secretary, I look forward to your testimony.

THE CHAIRMAN. Thank you, Mr. Brown.

Ms. Hooley, you're recognized for an opening statement.

#### OPENING STATEMENT OF MS. HOOLEY

MS. HOOLEY. Thank you, Mr. Chair, and thank you, Mr. Secretary for being here.

As we go into the future, there are some things I hope you would do.

Number one is look at, with whatever model you use, would you look at not only the cost of living, but the fact that more veterans are coming into the system, health care costs are rising much faster than the cost of living, and the services we deliver to veterans are a little bit different and more expensive than what we have in a regular hospital, and that's why we have VA hospitals.

I have one last request, that you listen to what's going on at the hospitals, which will help you in trying to figure out whether you have a shortfall now or not.

And let me just go over some things that have happened in the Portland VA Hospital. That's the one I know about.

First of all, Portland has delayed all non-emergency surgery by at least six months.

Recent visitors to the short care stay unit were surprised to see a handwritten sign declaring that, "due to budget issues, we can no longer supply meals to patients," and asking patients to bring meals from home.

The hospital has reduced staffing and is now short 150 hospital staff, including nurses, physicians, and social workers. As a result of budget cutting for staff, the VA has cut the number of hospital beds available for care of veterans.

For the fiscal year 2005, the facility needed 13 million for medical

and clinical equipment, but received 2 million.

I believe that any soldier who puts his or her life on the line shouldn't have to worry about getting health care when they return from battle.

How are we supposed to provide adequate health care to these new veterans that are coming in every day, when we can't meet the needs of our current veterans?

I think our returning soldiers deserve better. I think our current veterans deserve better. And I'm looking forward to you working to correct the VA budget.

Thank you, Mr. Chair.

[The statement of Hon. Darlene Hooley appears on p. 64]

THE CHAIRMAN. Thank you, Ms. Hooley.

Mr. Miller, you're recognized for an opening statement.

#### OPENING STATEMENT OF MR. MILLER

MR. MILLER. I have an opening statement I'd like to enter into the record.

THE CHAIRMAN. Your statement shall be entered into the record with no objection.

[The statement of Hon. Jeff Miller appears on p. 68]

THE CHAIRMAN. Mr. Reyes, you're recognize for an opening statement.

#### OPENING STATEMENT OF MR. REYES

MR. REYES. Thank you, Mr. Chairman. I also have a full statement. If I could enter it into the record --

THE CHAIRMAN. Without objection, you're written statement will be entered in the record.

Mr. Reyes. Thank you.

I just wanted to mention, welcome, Mr. Secretary.

In fact, I consider the Secretary a friend, because back in the first initial campaign, he represented President Bush very well in debates, and I did so, debated him, representing then Vice President Gore, so I consider him a friend.

I respect him as a fellow veteran, because I know that he cares very much about the country, and now being Secretary, I know he cares about veterans.

I do hope, Mr. Secretary, that you will do everything that you can to communicate to those that make decisions along with you about the budget for the Veterans Administration.

I know, having heard Secretary Principi here tell us that he had in

fact asked for \$1.2 billion more than he had been authorized by OMB, and last week we heard testimony from Dr. Perlin about the severe cutbacks in this year's budget, it seems to me like we shouldn't be surprised about that, when he doesn't get the amount of money.

As our Chairman says, you know, yes, everybody's got a number. You know, there's an Independent Budget that's got a number. The VA has a number. He's got a number. Our Ranking Member has got a number.

But I think after this fiasco, all veterans around the country have the administration's number.

It's unconscionable, in my mind, that we find the money for billions of dollars to go and build neighborhoods and do all the things that we're doing in places like Iraq and Afghanistan, and we can't find the money to fund our health care for our veterans.

It's unconscionable that we can go to the deficit and build a budget that increases the deficit so it will be within the realm here in Congress of this artificial budget, but we're unwilling to do that for the veterans.

So it's not just the Secretary who is at fault here and who is to blame. It's all of us, for allowing this to happen.

When the Chairman wants to know if anybody can predict the power ball, like my good friend and colleague Chet Edwards, I can't predict the power ball, but I can tell you this. Decisions like this, our inability to have guts enough to fund veterans' programs like they ought to be puts the veterans behind the eight ball.

So the hell with the power ball. It's the eight ball that we ought be fighting against, because that's where we're putting our veterans.

Finally, I would like to say that the system doesn't suffer in this process. It's our veterans that are suffering, our veterans that can't get the health care, our veterans that are getting letters that they're showing me.

And I was just in the district over the weekend, and had had a previously scheduled meeting with veterans, and they showed me the letters, and they said, "It's getting worse, it's not getting better."

And as we're seeing, one of them had been wounded in Iraq nine months ago, and had been discharged because of those wounds.

Those are the people we ought to be caring about. Those are the people we ought to be putting first in this line instead of having to make up for it in a very embarrassing way like we are now.

So with that, Mr. Secretary, I don't know if you ever wondered what it's like to be the meat at a barbecue, but I think you're about to see that.

So welcome. Thank you, Mr. Chairman.

[The statement of Hon. Silvestre Reyes appears on p. 81]

THE CHAIRMAN. I thank the gentleman for his opening statement.



Mr. Boozman, you're recognized for an opening statement.

#### OPENING STATEMENT OF MR. BOOZMAN

MR. BOOZMAN. Thank you, Mr. Chairman.

I want to thank you and Mr. Evans for holding this hearing, and certainly it comes at a very critical time.

We had a hearing last week, or earlier this week, sometime not too long ago, about modeling, and I know that it really is very difficult to do that.

I was in Germany not too long ago, and saw a young man that had lost both his legs below his waist, and literally, he was coming out of anesthesia. He had had that happen to him the night before.

And he asked me about two things. He wanted to tell a story, but apologized because he had slurred speech, from coming out of the anesthesia.

But he wanted to know about his wife and family, and was reassured that he would be in the United States the next day.

And then the other thing he wanted to know was, would he be able to walk again.

And I could look him in the eye and reassure that, yeah, we've got the technology, we've spent the money, we're doing the things that it takes to literally provide him with the finest care that we could do that.

My uncle died last week. I was at his funeral. He was a World War II guy, and had been ill for the last six months, and probably spent more in health care dollars in the last six months than he had in his entire life.

So I understand, we've got all this stuff going on, and yet we got to do a better job than what we're doing.

This Committee, everybody here, and I think you can hear it from all of us, things might get such that, you can get asked some tough questions, but everybody on this Committee truly is committed to the veterans. In this Committee, we're the ones that push things forward on both sides.

We have a great system now, and like I say, we're committed to continuing that.

To be honest, I think the only thing that we're missing in this equation is somebody from OMB to explain, but maybe they're not willing to do that. But like I say, at some point, I'd really like to hear from them, on what's happened on their part.

So again, thank you all very much for having the hearing, and thank you all for coming.

THE CHAIRMAN. Ms. Berkley, you're recognized for an opening statement.

Thank you, Mr. Boozman.

## OPENING STATEMENT OF MS. BERKLEY

Ms. Berkley. Thank you, Mr. Chairman, and thank you Mr. Secretary for being here.

I have a very great relationship with my veterans. I've grown to love them and I think they really have been terrific to me.

My World War II vets kind of look at me as a daughter; and my Vietnam vets, those that came after, many of them, because people returned to Las Vegas because it was such a booming town, I went to high school and college with them.

So I have more than a constituent-Congresswoman relationship with many of my vets. They are truly friends, lifelong friends. They're going to be friends of mine long after I finish my service to our country.

I can barely look at these people now, because I know that we're not doing right by them. You know the needs that I have in Southern Nevada.

I've got 80-year-old veterans standing in 110 degrees temperature, waiting for a shuttle to pick them up to take them to one of 10 temporary VA facilities so they can get their health care.

Standing out in 110 degrees for anybody for more than a few minutes is a very difficult thing to do, and yet my veterans, who need these health care services so much, do it, and they're not complaining too much, because they have been assured and they've been told by me and your predecessor that we are in line to get a full VA medical center that includes a long-term care facility, which we are in desperate need of, a VA hospital which we are in desperate need of, and an outpatient clinic, because, as you know, our outpatient clinic, after being in service for five years, was declared structurally unsound and the building was condemned.

We have worked very hard, and the CARES Study, as you know, bore out the fact that we needed these facilities desperately for the 200,000 veterans that live in Nevada, 50,000 of whom get their health care needs met, rightly so, by the VA.

I've got 500 veterans from Iraqi Freedom who have already accessed our health care system in Nevada, such as it is.

I need to get assurances from you during your testimony that we are not going to fix this shortfall with a temporary fix and take that money out of our capital building fund. We need those facilities, and this emergency needs to be taken care of and we need to get our VA funding on sure footing, and we can't steal from Peter to pay Paul.

The other thing I am very concerned with, and I appreciate Ms. Hooley talking about her facilities in Portland and the challenges there, because all of us are dealing with our veterans on a local level.

If we're going to provide these services by cutting services to our veterans, then that doesn't work for me, either.

If we cut federal funding to state homes, I'm going to have 100 veterans out in the street that have no other place to go, because all we have right now in southern Nevada is a state home for veterans, and there's a waiting list.

I can't have my veterans paying double for their prescription medication. They can barely afford the amount of money we charge them, because many of them have multiple needs, multiple ailments, and if they're paying for six or seven prescriptions a month, to double that would be the difference between getting their medication and getting their food, and I don't want to be melodramatic, but that's the reality on the ground.

And providing or instituting a user fee for our veterans to me is unconscionable, given their service and the promises that we have made.

So we need to do this, and do this well, and I would invite you and the President to come to my district and talk to my veterans, not in a staged event where everyone needs a ticket to get in and you have to be a great advocate of the Administration or a great fan of the President so they give out the tickets in advance, but to be able to sit and talk to my rank and file veterans that use these facilities, that need these facilities, that are looking to their government for the help that we promised them.

If you spoke with them for five minutes, you would know what their needs are, what their concerns are, what their challenges are, and then maybe we can adequately fund this VA budget.

I'm anxious to hear your responses to me.

And what I find most insulting is that if the VA knew about these numbers in April, to have kept it from all of us for this long of a time, to me doesn't make any sense.

We're all in this together, I think many of the members on both sides of the aisle feel that we've been had, and for the amount of work and time we put into this Committee and into our jobs, to have deceptive numbers or wrong numbers, and having the VA know this and having us go forward with these wrong numbers, to me makes absolutely no sense in the world.

So I'm anxious to hear your remarks, and I thank you very much for being here.

[The statement of Hon. Shelley Berkley appears on p. 69]

THE CHAIRMAN. Thank you, Ms. Berkley.

Ms. Brown-Waite, you're recognized for an opening statement.

## OPENING STATEMENT OF MS. BROWN-WAITE

Ms. Brown-Waite. Thank you very much, Mr. Chairman, and I want to thank you for holding this hearing so that we can get some facts, so that we can remedy the situation. That's what this hearing is all about, making sure that we get accurate numbers.

Last Thursday the VA testified that they have used \$600 million for health care that was intended for infrastructure and maintenance.

We can't be in the business of borrowing money so that the buildings dilapidate, so that we don't have proper maintenance.

I have the highest number of veterans of any member of Congress. I have over 107,000 veterans. I, like other members in VISN 8, also have the highest number of returning servicemen and women coming back from Iraq and Afghanistan. We want to make sure that the quality of care is there.

You know, had we had this information, we could have addressed the problem over a month ago when we passed the military quality of life and veterans' affairs appropriations bill -- if we had that information.

Two years ago, I served on the Budget Committee and was able to work with the Chairman to plus up the amount for veterans, specifically with the agreement that it would go to veterans health care.

I don't think there's a member of this Committee who doesn't want to do well by veterans, but if we are given faulty information or if we are misled, then we can't do our job.

I don't want one veteran, whether they served in World War II -- I even have some World War I veterans in my district. Over 50 percent of the 107,000 veterans that I have use the veterans health care system.

I don't want one veteran deserving health care, whether it's World War I all the way up to Operation Iraqi Freedom, I don't want them to be denied that because we were misled.

It wasn't intentional. I'm sure of that Mr. Secretary. You know, when you use a model and you just come into a new job, which you did, sometimes you rely on the same old same old.

We can't do that. We cannot have that ever, ever happen again.

You know, there are certainly other programs that we can perhaps pare down to make sure that the man and women who serve our country are well cared for. That's our job, but we can't do it if the information that we have is in some way, shape, or form not accurate.

We want to help you, Mr. Secretary. We want to help you to make sure that the VA health care system in our country is one that everybody can be proud of. It takes dollars to do that, and it takes a commitment, and I know that the members of this Committee have that commitment.

And I assure you that I look forward to working with you to make

sure that our veterans' health care is the very, very best in the world, and I appreciate your being here today and look forward to your testimony.

I do have a formal opening statement which I'll submit.

Thank you.

THE CHAIRMAN. You're written statement will be entered into the record.

[The statement of Hon. Ginny Brown-Waite appears on p. 71]

THE CHAIRMAN. Mr. Udall, you're recognized for an opening statement.

### OPENING STATEMENT OF MR. UDALL

Mr. Udall. And I would also ask that my full opening statement be put in the record.

THE CHAIRMAN. Your written statement will be entered into the record without objection.

MR. UDALL. Thank you, Mr. Chairman, for holding this crucial hearing today, and thank you, Mr. Secretary, for joining us.

I'm holding here in my hand a stack of letters sent to the President, the Speaker, the House Appropriations Committee over the past year.

These letters have been signed by many members of this Committee.

On October 11, 2004, a letter to the President requesting he reevaluate his fiscal year 2005 budget request in light of the large number of veterans returning from Iraq and Afghanistan who were in need of health care.

February 17, 2005, letters to the President and the Appropriations Committee requesting that they add an additional \$1.3 billion to the fiscal year 2005 supplemental appropriations bill, to provide health care and readjustment assistance for Afghanistan and Iraq veterans.

March 7, 2005, a letter to Speaker Hastert about the woefully insufficient funding for the VA under the President's fiscal year 2006 budget proposal, and asking that the House increase the amount by 3 billion for veterans' health care.

April 27, 2005, a letter to Secretary Nicholson about how the budget cuts for veterans' health care have hurt New Mexico. The Accommodations Hotel Lodging Program in Albuquerque, New Mexico has been forced to limit access to veteran patients further than 150 miles, which has adversely affected thousands of veterans.

The average wait for dental appointments at the dental facility in Albuquerque is two years.

All of these letters were ignored.

If what I have read in the papers is accurate, it is about time the Secretary and the administration fully acknowledge what is going on here.

I hope today the House will pass an emergency supplemental appropriations bill for veterans health care. We are here today to figure out what events and mistakes leading up to today made this necessary, and what the VA, and this Committee, are going to do to prevent a recurrence in the future.

I'm particularly concerned that the Committee was not informed of the VA's agreement that there was a shortfall earlier.

I want answers about the timeline here, and about when exactly the VA began reprogramming the money for this purpose, without the knowledge of Congress, and if the main problem here is that the VA underestimated how many soldiers returning from Iraq it would need to care for, what does this say about our planning for that war?

I very much look forward to hearing Secretary Nicholson's answers to these questions today. There are 183,000 veterans in my state who deserve nothing less.

Thank you, Mr. Chairman.

THE CHAIRMAN. Thank you very much for your statement.

Mr. Turner, you're recognized for an opening statement.

#### OPENING STATEMENT OF MR. TURNER

MR. TURNER. Thank you, Mr. Chairman. I appreciate you holding this hearing on our ability to get additional information.

And, Mr. Secretary, I appreciate your being here, and your service. You certainly have an excellent reputation that I know as we proceed in this is going to serve you well as we try to resolve it and come to solutions and conclusions.

I got on this Committee because in my community my large veterans' facility was exhibiting pressures for reductions of service that did not make sense. As we heard that the Department of Veterans' Affairs had the funding necessary, we still were hearing of reductions in services.

So I sought a seat on this Committee because I wanted to find out why this was occurring and what needed to happen.

I think the comments earlier that suggest that budgetary processes may be compared to guessing are unfortunate, because we all know that in the issue of budgetary processes, we're talking about issues of professionalism.

I appreciate Mr. Strickland's comments that this is not a partisan issue, and I certainly think that, to the extent that this is made partisan, we're not serving our veterans, because again, this is not a partisan issue, it is a professional issue.

A professional issue is, how do you prepare budgets and how do you

seek funds from Congress that provide the Department of Veterans' Affairs what you need?

When we say it's not partisan, I think we can say that there is not one members of this Committee and there is not one member of Congress that would not vote to give the Department of Veterans' Affairs what they need.

So the question becomes, then, how do we arrive at what does the Department of Veterans' Affairs need, and the process for us providing that to you.

And I know that today you're going to be speaking as to how you're working on that process to fix it to make certain that we can do our job and live up to our commitments of making certain you have what you need to be able to serve our veterans.

Thank you.

THE CHAIRMAN. Thank you, Mr. Turner.

Ms. Herseth.

#### OPENING STATEMENT FOR MS. HERSETH

MS. HERSETH. Mr. Chairman, I apologize for not making this request earlier, but I'd like to submit a written copy of my opening statement for the record.

THE CHAIRMAN. Without objection, it will be entered.

MS. HERSETH. Thank you.

[The statement of Hon. Stephanie Herseth appears on p. 72]

THE CHAIRMAN. Ms. Brown, you're recognized for an opening statement.

#### OPENING STATEMENT OF MS. BROWN OF FLORIDA

MS. BROWN OF FLORIDA. Thank you, Mr. Chairman, and thank you for holding the meeting today.

I, for once, can say that I want to be associated with the remarks of all of the members' comments about the veterans' department and the Secretary.

And to be truthful, if we were in court, they would have to view me as a hostile witness, because I feel pissed off.

My favorite secretary was Jesse Brown, and his motto was "Putting veterans first."

Now, this town is an ugly rumor town, and one of the rumors going around is that the priorities of the Veterans' Affairs is to make sure your picture is up. I know that's a lie. I know it's not true. But that's what the rumor has been going on, and that's why we haven't been focusing on the health care of veterans.

But let me just say that every member on this Committee knows

that we're close to \$3 billion short for the needs of the veterans, and I don't understand how anyone could feel like, "Oh, \$1 billion is enough."

We have known for a long time that the numbers we were getting, the comments we were getting from the community were just all lies.

We need to have OMB to come in here, because I know the former secretary, when they turned in the numbers, it was different, and when it got to OMB, they approved whatever they wanted to, and that's what was sent up to the Hill.

So the real people that need to be in here is OMB. We need to get them on the carpet.

But, Mr. Chairman, after this meeting, I am hoping you and the Ranking Member will put forth a motion that this Committee will come out here today, and the news will be that we authorize additional \$1.5 billion for Veterans' Affairs for maintenance and for health care. That should be the headlines in the news, not whatever the Secretary has to say.

So I want to go on record that I am not happy, I'm not pleased, my veterans are not, and the sad thing is, they support you and the Republicans. They voted for you, and they don't understand why you don't support them the same.

The first President of the United States said that no matter how great the war, and I question that this is a great war, that the men and women will determine whether they're going to join the military as to how we treat the veterans, and they're getting shabby treatment from this Bush administration and your administration, sir.

I yield back the balance of my time.

[The statement of Hon. Corrine Brown appears on p. 74 ]

THE CHAIRMAN. I thank the gentlelady.

Mr. Bilirakis is recognized for an opening statement.

#### OPENING STATEMENT OF MR. BILIRAKIS

MR. BILIRAKIS. Thank you, Mr. Chairman, and thank you for this hearing.

I, as others have said, agree with most of what all of our members, the comments that they have made.

I agree with Ms. Hooley, particularly, even though she's left.

I agree with Mr. Reyes in terms of the veterans' suffering as a result of what has taken place here. I do sort of disagree with him, though, when he says that the system doesn't suffer. I think the system does suffer.

You know, we serve on this Committee, I like to think, for the most part, because we really believe in our hearts for veterans and care



about veterans, but we have to depend on our staffs, we have to depend on figures that we get from OMB, from the VA administration, et cetera, et cetera, and then we have to make our decisions, because we can't pull them out of the sky.

And when we have, as was already indicated, the former secretary telling us, sitting right there and telling us that he needed an additional \$1 billion, and that was ignored by OMB, it was ignored by our leadership up here, it was ignored by the White House, et cetera, et cetera, I mean, that's the system, and it's hurting because we don't have the credibility, and the believability that we need in order to do our job.

We were reminded earlier that the Secretary has served as the Chairman of the Republican National Committee.

I think it's also very important that we be reminded that he served in Vietnam with tremendous distinction, very decorated, received the Combat Infantryman's Badge, which is, frankly, in the eyes of many, even more significant than the Medal of Honor.

So that is the man that we have as Secretary of Veterans' Affairs, not just that he served as the Chairman of the Republican National Committee.

I'm the oldest member in many respects of this Committee, but certainly one of the longest serving. I can tell you that from day one.

We've had the same kind of problems. I don't care who was the administration, I don't care who was in charge of OMB.

Frankly, every secretary we've had -- Mr. Brown, so many others -- it came from the heart, but they had to answer to other people, OMB particularly, and the White House, and the leaderships on both sides of the aisle, and that sort of thing.

I used to sit over there and constantly remind our members at virtually every hearing, certainly in every markup, that the percentage increases for every other program that we deal with up here, were something like 125 percent. For veterans, it was something in the 50 percent category, because we are way behind the curve.

Veterans are basically considered almost at the tail end. That's been the way, all along.

We had to handle the Clinton budget, and Mr. Brown, I specifically asked him one day, who does he really work for? He's a good man. I knew him personally. But I specifically asked him. Why? Because we weren't happy with the President's budget.

But he worked for the administration, and he had to kowtow, so to speak. He probably made an awful lot of noise behind closed doors.

It's a very difficult thing, and I'll tell you, it's really a mindset. I think it's a mindset that we have, I don't think this Committee has it, but virtually everybody else has it. We know that the cost of war does not end with the end of the war.

So our leadership, in the majority, I mean, the battles that I've had

with those people over the years, but I would say that I also had as many battles when Sonny Montgomery, who was the most beloved man who ever served, probably, in the House of Representatives. He received all of the awards, sat right there, and I used to battle him on concurrent receipt. I used to battle with him regarding not enough funding for health care for veterans, et cetera, et cetera.

So it's a mindset, my friends. And we sit here, and, you know, the partisanship that takes place and the demagoguery that takes place doesn't help matters any.

You might be right when it comes to the unified budget, or the need for more money, but when it's done in such a way that it's demagoguery and that it's politics. There are people on this Committee who refused to sign my discharge petition on concurrent receipt there in the House. But when it came to a Democratic discharge petition, oh, my God, these Republicans were horrible that they refused to sign it. That's politics. Okay? That's politics.

If we put that aside and decide to sit around the table and work together, and given the clout that we have, and hopefully with the Secretary supporting us and we supporting him with OMB and with the administration, I think we can do a much better job.

Will it ever be perfect? Of course not. This is not a perfect science, obviously.

MS. BROWN OF FLORIDA. Would the speaker yield?

MR. BILIRAKIS. Well, my time is up. I just basically would finish. Maybe the Chairman --

MS. BROWN OF FLORIDA. I feel very strongly that I need to respond to what you said about Secretary Jesse Brown.

MR. BILIRAKIS. I didn't say anything bad about Secretary Jesse Brown.

MS. BROWN OF FLORIDA. I just want to be clear that we are all on the record that I understood very clearly that he had problems with the Clinton Administration --

MR. BILIRAKIS. Yes.

MS. BROWN OF FLORIDA. -- and he would come here, and he would stand up to them. That's the point I'm making.

MR. BILIRAKIS. Amen. Amen to that.

MS. BROWN OF FLORIDA. Regardless of who the administration was, he was a man that would stand up to the administration.

MR. BILIRAKIS. And I would suggest that Secretary Principi had problems with them, I would suggest that this Secretary, he hasn't had that much of an opportunity to do so yet, because he's relatively new, is going to have problems.

I just hope that we have learned a lesson from what's taking place, because for the first time, we have had an acknowledgement on the part of all of these people -- I don't know, maybe even OMB, for crying out loud -- certainly from the White House, from the administration,

from our leadership and whatnot, that there is a true shortage in terms of this \$1 billion or maybe more, for the first time.

So hopefully, we've all learned a lesson, and we'll work together. Thanks.

MS. BERKLEY. Mr. Chairman, may I request that my prepared remarks be submitted for the record?

THE CHAIRMAN. Yes, Ms. Berkley, your written statement without objection shall be entered into the record. So ordered.

[The written statement of Hon. Shelley Berkley appears on p. 69]

THE CHAIRMAN. Also, I have a request from Mr. Tom Osborne of Nebraska, not a member of the Committee, that a statement be submitted as part of the record of this hearing.

I ask for unanimous consent. Without objection, it shall be ordered and his statement shall be entered into the record.

[The statement of Hon. Tom Osborne appears on p. 83]

THE CHAIRMAN. Ms. Hooley.

MS. HOOLEY. I would also ask that my statement be entered into the record.

THE CHAIRMAN. All members may submit a written statement and it will be entered into the record.

Hearing no objection, we'll give you three days to enter that statement into the record.

[The written statement of Hon. Darlene Hooley appears on p. 64]

THE CHAIRMAN. Mr. Secretary, I want to thank you for coming.

At about 9:45, I was on the phone and had a painful discussion, no differently than other members that are in this room, no differently than what you have had to do, and it was to speak to a father whose son was on the helicopter that was shot down in Afghanistan.

Those of us that experience that conversation with a loved one, it's not easy. They are looking for reassurances. He just wants to know what happened, "When can I get my son back?"

He wants to fulfill his son's last request, and it's, "Dad, if I don't come home, bury me in Arlington."

So members here can rightfully be upset.

No differently than you in taking the helm of this position that you have. I sincerely believe that, interwoven into the fabric of our common bond of all of us as Americans is our love, our respect, our admiration, and our care for the men and women who wear the uniform and the loved ones they leave behind.

You're a West Point grad, grew up on a farm, seven children, combat veteran, retired colonel, knighted by the Pope for raising human dignity in the world.

The statement that people don't care how much you know until

they know how much you care, I know your heart. Now we want to hear your statement about how you're going to use your intellect to solve the problem.

Mr. Secretary, you're recognized.

STATEMENT OF THE HONORABLE R. JAMES NICHOLSON,  
SECRETARY, DEPARTMENT OF VETERANS' AFFAIRS;  
ACCOMPANIED BY JONATHAN B. PERLIN, M.D., PH.D.,  
MSHA, FACP, UNDER SECRETARY FOR HEALTH, DEPART-  
MENT OF VETERANS' AFFAIRS, AND TIM McCLAIN, GENER-  
AL COUNSEL, DEPARTMENT OF VETERANS' AFFAIRS

STATEMENT R. JAMES NICHOLSON

SECRETARY NICHOLSON. Thank you, Mr. Chairman, and good morning, members of the Committee.

I appreciate the opportunity to be here and to discuss budget forecasting and the finances of the Veterans Health Administration.

Accompanying me this morning is our under secretary for health, Dr. John Perlin, and our general counsel and chief management officer, Mr. Tim McClain.

Mr. Chairman, we appreciate the support of both the Congress and the administration to identify the resources necessary to restore capital funds and enhance VA's ability to deliver care to our veterans in 2005.

By way of summarizing this week's hearings, I think it's important to review how VA's health care resource needs are projected.

Before eligibility reform, VHA budgets were based on historical expenditures, adjusted for inflation, and then increased based on proposed new initiatives.

As the VHA became an integrated health system, VA adopted the tools of the private sector and moved to using actuarial modeling to dynamically formulate a health care budget.

Actuarial modeling allows VA to project resource needs based on veteran population trends, based on changing health care technologies and utilization patterns, and the costs of goods and services.

Actuarial modeling is a well-tested private sector tool that the VA applies to our 21st century health care system.

Over the past six years, we have integrated the VHA enrollee health care demand model projections into our health care financial and management processes.

in March 2005, March of this year, the demand and resource trend line moved upward. My letter of April 5, 2005 to the Chairman of the Senate Subcommittee on Military Construction and Veterans' Affairs said:

"Whenever trends indicate the need for refocusing priorities, VA's

leaders ensure prudent use of reserve funding for these purposes. This is just simply part of good management.”

End of quote.

On April 19th, VA staff met with the Ranking Member and members of the minority and majority staff of the House Appropriations Subcommittee to discuss the veterans equitable resource allocation, or VERA, model. During this meeting, there were protracted discussions of the health system’s financial status for 2005, including the reallocation of capital funds for direct patient care.

During that same week, I met with the director of OMB to update him on the current status and to alert him to potential issues for fiscal year 2006, as well.

The model on which the 2005 budget was formulated relied on data from the year 2002, before the beginning of Operation Iraqi Freedom, and as we all know, the world has changed and much has occurred since then.

During fiscal year 2005, our 2005 budget assumed that 23,553 VA patients would be veterans of our global war on terror. That number is now estimated to be 103,000. Fortunately, many of those are just seeking routine health care services and dentistry.

However, it’s important to point I think also that the majority of the new VA health care users in 2005 are older veterans from previous eras, and we are caring well for all of them under this budget, as well.

In May, we performed an actuarial model update for fiscal year 2006, with more current and accurate data from 2004 further indicating to us the significant increase in patient demand that we could expect for fiscal year 2006.

In the first week of June, the VA staff met with VA and DOD branch staff at OMB for a mid-year management review and to discuss the implications of the fiscal year 2005 management decisions on the 2006 budget.

Similarly, VA staff met on June 3rd with majority staff members of the House and Senate Veterans’ Affairs Committees to discuss the implications of the reallocation and use of funds projected for carry-over into the base for fiscal year 2006.

On June 23rd, the under secretary for health offered testimony to this Committee on the actuarial model and its limitations, and identified a 2005 workload growth rate of 5.2 percent compared with a forecasted growth rate of 2.3 percent. That is a delta, or difference, of 126 percent.

We have been forthcoming with information regarding both the status of our budget and the responsible management decisions that we have made as 2005 has unfolded. However, I think the difficulties of projecting health care utilization in the out years are now self evident to everyone.

While the VHA enrollee health care demand model is a valuable budgeting and planning tool for projecting VA's resource requirements, projecting health care trends and utilization for a huge health care system such as the VA, it is inherently complex.

It is significantly more challenging in the context of the federal budgeting timeline, the phasing that's needed, which requires projections not for the next year or even the next open season, as in the private sector, but for two-and-a-half or three-and-a-half years hence.

As I explained in testimony on Tuesday before the House Appropriations Committee and the Senate Veterans' Affairs Committee, we do have a plan to manage within existing resources without putting at risk our ability to provide high quality care for our nation's veterans, which is our mission and our goal.

However, based on my consultations over the past few days, it is clear that many Members of Congress and veterans groups continue to have concerns.

Because it is important to this administration that our veterans have full confidence that the VA will have the resources it needs to meet our obligations, we now believe that it is appropriate to request additional resources for fiscal year 2005.

Thus, later this afternoon, the administration will be submitting an fiscal year 2005 supplemental request in the amount of \$975 million for VA medical care to address the higher than estimated number of patients seeking health care services.

The administration is also currently reviewing how this supplemental request impacts fiscal year 2006 needs and will be proposing an fiscal year 2006 budget amendment in the very near future.

With both of these actions, the administration will ensure that veterans continue to receive the highest quality care at VA facilities.

Mr. Chairman, again, we appreciate this opportunity for continuing dialogue to assure resources for direct patient care in 2005, and to address the additional resources necessary to restore capital and reserve funds in support of timely, high-quality care for veterans.

We also appreciate the opportunity to discuss our budget modeling and projections with you.

Thank you, Mr. Chairman.

[The statement of Hon. R. James Nicholson appears on p. 84]

THE CHAIRMAN. Thank you, Mr. Secretary.

I want to thank you for your supplemental request.

The 975 million, if you would please give me a breakout?

If you would also then tell me, as we go into the last quarter, what monies of that do you think will be carried over into 2006? I'm asking you to project.

If you could do that for me, right now.

SECRETARY NICHOLSON. Yes, sir.

I'll give you these categorically, the way that we are slotting them, and then be happy to submit this --

THE CHAIRMAN. All right.

SECRETARY NICHOLSON. -- in written detail.

For the increase in OEF workload and expense, in forecasting that impact upon the rest of this fiscal year, in the 103,000 veterans, including the Guard and Reserve soldiers that we're treating and will be, we're projecting \$273 million.

For increases in CHAMPVA, which is the health care benefit for dependents of the 100 percent service connected veterans, we're projecting \$39 million.

For VA long-term care, which is the nursing home -- and the daily average consensus is what we used to measure that -- we're projecting \$226 million.

For fee-basis care, to reduce the waiting lists -- this is where in a facility, if the waiting list is getting unacceptably long, we are authorized to contract out and have people go out on the local economy to see doctors and medical facilities -- for that, for the rest of this year, we're projecting \$58 million.

Increase in energy costs. Again when this budget was put together using 2002 baseline data, and looked at again with actuals of 2003, we did not anticipate the amount of increase in fuel and utility costs that would be experienced by the country and of course by the VA, and so that amount is \$95 million.

And we are experiencing a greater than expected workload in our Priorities 1 through 6 veterans, the service connected disability veterans, and thus asking for \$200 million for that category.

And for an increased utilization of services for veterans overall, including the need for the purchase of more emergency medical equipment and supplies, \$84 million, Mr. Chairman.

And that is \$975 million.

THE CHAIRMAN. All right. Mr. Secretary, you have made an official supplemental request to the United States Congress in the amount of \$975 million. I'd like for Mr. Brown, if you would come forward and take the chair. I don't have much time. As Chairman of this full Committee, I have some work to do.

MR. BROWN OF SOUTH CAROLINA. [presiding] Thank you, Mr. Chairman.

Thank you, Mr. Secretary, and I'll entertain questions from the membership.

Mr. Evans, do you have a question?

MR. EVANS. Mr. Secretary your predecessor, Secretary Principi, told us how much money he had requested for a budget and what had actually been provided to him.

What was the difference between what the VA requested and what you obtained from OMB for the fiscal year 2006 budget?



SECRETARY NICHOLSON. Does your question relate to the numbers that I just stated?

MR. EVANS. The difference.

MR. BROWN OF SOUTH CAROLINA. I think he's talking about the 2006, Mr. Secretary.

Let counsel restate the question.

MR. TUCKER. Secretary Nicholson, the question is, your predecessor, Secretary Principi, forthrightly told this Committee how much more he had requested for his budget than what he had actually been provided.

What was the difference between what the VA requested and what you obtained from OMB for your fiscal year 2006 budget request?

SECRETARY NICHOLSON. I don't know exactly that number, Mr. Evans, because when I got into this process in February, that number was established and I was not part of the discussions leading up to that, and I've not known that number.

MR. EVANS. How many clinics have you closed or not staffed or delayed the opening of in this process?

SECRETARY NICHOLSON. I'm going to ask Dr. Perlin to answer that question. I think the answer is that we have not closed any clinics except I think we may have consolidated two clinics in one area.

But I'm going to ask Dr. Perlin to answer that.

DR. PERLIN. Sir, I'd have to get back to you on the record for any clinic shifts, but I think the important point is that we've gone from 200 to 874 community based outpatient clinics, and we have been continuing to open clinics.

MR. EVANS. How are you going to address the situation faced by veterans in VISN 16 where, as of the end of April, no appointments will be scheduled for non-service connected veterans, and how could you say that this is not directly related to the \$1 billion shortfall you currently face?

SECRETARY NICHOLSON. I'll ask Dr. Perlin to respond, sir.

DR. PERLIN. Sir, I believe your question was about VISN 16 and the clinic, or hospital?

MR. TUCKER. If I could, yes, it's the medical centers in VISN 16.

There is a letter that was entered into the record by the American Legion in last week's hearing detailing that all medical centers in that VISN are not accepting new appointments for non-service connected veterans, dated April 29th this year.

DR. PERLIN. I'd heard of a particular hospital in VISN 16 that had inappropriately authored a letter that delayed new patients to the clinic or to the facility.

MR. TUCKER. Dr. Perlin, that letter says it applies to all VISN 16, not just the Alexandria Medical Center.

DR. PERLIN. I will have to look into this. I'm not aware of a letter that has been sent to patients along those lines.



MR. EVANS. Thank you, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Mr. Bilirakis.

MR. BILIRAKIS. Thank you, Mr. Chairman.

Mr. Secretary, when did we hold the hearing when they had the actuary here? It was last week, I believe, the 23rd.

Now the data that was used for 2005 projections was 2002 data. I mean, come on. Is that the best that we can do?

And the actuary sitting at the end there, when I kind of raised this question to her, I understood her to say that, "Well, we used the most current data."

Does that mean that 2002 is the most current data? I mean, since 2002, as you have already said, we hadn't invaded Iraq yet, we didn't have those situations present.

We have supplementals up here. Many people don't like supplementals. But basically it's, so to speak, a correction on shortfalls in appropriations that took place previously, and so, you know, it's an admitted -- admitted on our part.

Doesn't the VA take into consideration these types of changes and change their data and that sort of thing?

SECRETARY NICHOLSON. I think that's a very important question, and frankly, I think that that, you know, may lead to what could be one of the most hopeful and helpful parts of having a hearing like this, would be for the VA to be able to come up with a better, more accurate system to project its needs, its business.

It's even, in some ways, more difficult than that, because the model, the model that is used does not take into account long-term care, it doesn't take into account dentistry, and it doesn't take into account prosthetics.

MR. BILIRAKIS. Does it take into account older veterans who are -- with related service connected conditions? You mentioned older veterans.

SECRETARY NICHOLSON. Yes.

MR. BILIRAKIS. It does take that into account?

SECRETARY NICHOLSON. It is a pretty sophisticated model.

It has 55 variables of services that it encompasses, and as our testimony has been, and as you all know that have been on this Committee for a while, it has worked quite well and been pretty accurate up until recent times.

But as we also know, when 2002 is the predicate for 2005, you know, the global war on terrorism had begun, but it had not begun even in Iraq.

So, I mean --

MR. BILIRAKIS. Well, all right --

SECRETARY NICHOLSON. -- the difficulty, because we're now working, right now we're working on 2007.

MR. BILIRAKIS. And for 2007 we're dealing with 2004 data?

SECRETARY NICHOLSON. 2004 data. Yes, sir.

MR. BILIRAKIS. Come on. You're a West Point graduate. Is that right? I mean, can't we do better than that? We have computers today.

I don't know what's going to -- and we're also -- this is related to using DOD data. As I understand it, the data is not very user friendly because it's very dated. It's not aggregated by unit or particularly by geographical location.

So how in the world can we forecast when these young men and women come back here from Iraq and Afghanistan, if we're using very dated data, as far as the VA -- as far as DOD and the VA are concerned.

You know, we talk about models and we talk about numbers and power balls and things of that nature. I know it's a big system. I know this is big government and it's a big system and it's a big health system and things of that nature.

But we have computers, for crying out loud. We can do better than that. Can't we do better than that?

I mean, are you satisfied that you're going to be using three-year-old data for 2007 and three-year-old data for 2008? Are you going to look into making changes?

SECRETARY NICHOLSON. I'm not at all satisfied. I'm uneasy about having that at work on our submittal for the 2007 budget that will eventually come to you, and then, you know, sitting there in 2007 and seeing what the world, you know, is going to be like and what the demand is going to be like and what the return element for coming from --

MR. BILIRAKIS. Can't we plug in more current data? That's the whole question. I mean --

SECRETARY NICHOLSON. One of the things I think I'm learning from this, Mr. Bilirakis, is that, I mean, we do monitor actuals on a monthly basis. We have a monthly performance review.

What the VA needs to do I believe is to come here to you on a far more frequent and scheduled basis, so that you know what we know when we know it.

I mean, we, through the first six months of this fiscal year that we're in, 2005, we were on that plan that was projected based on that 2002 data, we were on it and we were operating pretty close.

Then it began to deviate up, and that's when -- but overall, if you take a look at this, this is a \$30 billion business projected, its needs based on the data of three years ago, and it came within 3 percent with a war having broken out in between times.

So in many contexts, that would not be -- that would be pretty good.

We took that data and made a decision with the reserves that we had on hand, and to reallocate resources to get through the end of

the fiscal year, and we divulged that in many different ways, as my testimony has been.

Now, you can disagree with that judgment, and obviously you do, most of you do, and we accept that, and that's why you're now seeing this request for a supplemental in lieu of that.

MR. BILIRAKIS. My time is up.

Do you disagree with that judgment?

SECRETARY NICHOLSON. No, sir.

MR. BILIRAKIS. You don't disagree with it?

SECRETARY NICHOLSON. I'm in total concurrence.

MR. BILIRAKIS. Well, I -- all right.

Thank you, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Thank you, Mr. Bilirakis.

I now recognize the gentleman from California, Mr. Bilirakis -- Mr. Filner.

MR. BROWN OF SOUTH CAROLINA. Hey, I'm on the wrong side of the aisle, you know, just -- but excuse me, Mr. Filner.

MR. FILNER. Thank you, Mr. Chairman.

I was somewhat struck by some of my colleagues on the other side.

Ms. Brown-Waite, you said "if we had this information," or "we weren't misled." We had this information. We all had this information.

Mr. Turner said there's not one member who would vote against giving the veterans what they needed.

I had a motion on the floor to put in the budget exactly what is missing, and you voted against it. In fact, every member on your side voted against it.

So let's have some reality here.

You had a budget that the President gave you. It was inadequate, but you went with it, and now you've been found out.

Mr. Secretary, in some respects, this is a phony hearing. We're looking at modeling, and these words -- trend lines, projections, 55 variables -- it's like you're wrong because, you know, the model ate your homework. It reminds me of students of mine, who used to come to school, "Sorry, I didn't do it. It's not my fault."

And talking about all this modeling, "it's the model's fault," allows you and this President and this Congress to avoid responsibility and accountability for what you've done.

We're talking about people here. We're talking about veterans who have served this nation. And you're talking about trend lines and projections, and you're "uneasy."

You should be outraged. You should be out in every hospital in this country to say, "I'm sorry, we made a mistake, and we're not serving you right, and we're going to correct it."

But you come here and say, "I'm uneasy." "Oh, the model is wrong.

It didn't have the fact that we went to war in Iraq." Hello? Everybody knows we went to war in Iraq.

The model is not the problem. You are the problem. The President is the problem. And we're not serving our veterans. That's what's going on.

You say we didn't have the information. We had the information. I've used this Independent Budget as my Bible for many years, and it has been right on every single time.

I hope you look at it, because this budget has been right, and you ought to use it instead of your model, which you outlined just about two minutes ago, Mr. Secretary, how it didn't have long-term care, it didn't have this, didn't have that. Why are you using it? This is not real.

You are talking about models. We're talking about people who aren't getting served. There's a thousand people in my district on a waiting list. They can't get dental care for two years, and more. We have lists and lists of the problems.

The system is in crisis, and you ought to be emotional about it. But you sit here and you talk about being "uneasy."

I asked you when you first came to this Committee, what was the figure that your department submitted to the OMB.

By the way, that's the real problem, as we heard before. This administration, this OMB is trying to balance the budget on the backs of the veterans. They don't care what your models are. They're giving you a figure based on what they want to do with other departments. They don't care about your model. Why should we?

We should be talking about the veterans, and this administration wants to balance the budget on the backs of the veterans.

But I asked you what did your department submit versus what OMB gave you, and you said to me, and I just broke out laughing, "I don't know." There were 10 people by your side. You could have asked any one of them. They all knew.

Four months later, you're back here. You gave the same exact answer: "I don't know."

With this problem, wouldn't you want to know? Wouldn't you want to go back and ask? You're sitting there and you're telling us you don't know.

I have seen a lot of irresponsibility and refusal to accept responsibility, and a lack of accountability, and a lack of passion since I came to Congress, but you beat the cake. I mean, you set the standard.

I have never seen someone as laid back with a \$3 billion problem, with our veterans not getting appointments, as you are today.

Again, I think you should resign. What do you think? Do you think you ought to resign?

SECRETARY NICHOLSON. No, sir.

MR. FILNER. Tell me, why should you stay in office? What are you

doing about what's going on? You read us a list of things, you're going to put \$26 million here and \$32 million here. I want you to go to the veterans and say, "I am going to change things to make sure you get the treatment you need."

Have you been out of Washington to see one veteran since this came about?

SECRETARY NICHOLSON. Mr. Filner, I was in your state this weekend, meeting with homeless veterans --

MR. FILNER. And did you tell them you were going to give them more support?

SECRETARY NICHOLSON. -- homeless veterans' advocates. I was at the L.A. --

MR. FILNER. And what did you tell them?

SECRETARY NICHOLSON. -- Hospital talking to veterans and talking to --

MR. FILNER. What did you tell them? Did you tell them the model was wrong?

SECRETARY NICHOLSON. No, I --

MR. FILNER. "I'm sorry, I can't serve you, the model is wrong?"

MR. TURNER. Mr. Chairman, the Secretary should be permitted to answer the questions in regular order, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Mr. Filner's time has expired, but Mr. Secretary, if you would care to continue to respond with the visit you had in California, it would be certainly in order.

SECRETARY NICHOLSON. I visit hospitals all over the country, and as I said, I was in California this past weekend visiting facilities there and meeting with homeless veterans, homeless advocates, because we have, as you know, a considerable homeless veterans problem in L.A., also, which concerns me a great deal.

MR. FILNER. So did you raise the money for that? Did you increase the money in the budget for --

MR. TURNER. Regular order, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Mr. Filner, I'm sorry, your time has expired. I'll just allow the gentleman a chance to your questions, and no further questions from you, please.

SECRETARY NICHOLSON. Actually, yes. What I'm trying to do is to put the pieces together between us, the VA, the public sector and the private sector, as we've done in Chicago for a 231-bed homeless veterans facility using VA loan guarantees, HUD Section 8 rental assistance allowances, and Catholic Charities in the Archdiocese of Chicago came in.

We're trying to replicate that in other areas, including in California, where the need is probably the worst. And I met with elected officials in Santa Monica to discuss that, as well.

But at the hospital, I took an extensive tour. I talked to patients, as I do everywhere I go, and some of them, knowing that I'm in the

building, make their way to me to tell me how grateful they are and what good care they believe that they are getting from the VA.

Certainly there may be exceptions here and there, but I am proud and will stand behind the excellent delivery of health care services that the VA is providing to our veterans at the 157 hospitals and the over 850 clinics that we have throughout this country.

Does that mean that we don't need more resources? Heck no. We've just established that, and are working toward that with your help.

But I'd like also if I could to ask you a question, Mr. Filner. If you can tell me what the VA is going to need in 2007, based on what the actual situation is going to be in 2007, or if anybody else can, we sincerely will appreciate that input, because that is what we're doing right now, in addition to this work, is we're formulating the 2007 budget.

MR. FILNER. You know, your own department has testified that the health care cost inflation is 13 or 14 percent per year. You told us that. So I'd start right there, 13-14 percent increase.

We know how many more people are coming back from Iraq. You step it up from there.

And then I'd sit down with the guys who made the Independent Budget, because they're right every time, and get the number from them, and they'll provide you with the expertise that you need.

MR. BROWN OF SOUTH CAROLINA. Thank you, Mr. Filner.

Mr. Secretary, when did you assume responsibility for this job?

SECRETARY NICHOLSON. February 1st, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Of what year?

SECRETARY NICHOLSON. Of 2005.

MR. BROWN OF SOUTH CAROLINA. So you really inherited this budget?

SECRETARY NICHOLSON. Yes, sir.

MR. BROWN OF SOUTH CAROLINA. Okay, thank you.

I recognize the gentleman from Florida, Mr. Stearns.

MR. STEARNS. Thank you, Mr. Chairman.

And let me just say in some of the questions posed by Mr. Filner about the Independent Budget he raised and had in his hand, I've had the opportunity to serve in the minority, and when Sonny Montgomery was Chairman, and I never recollect the Democrats or Chairman Sonny Montgomery using the Independent Budget as a guide.

So this Committee really makes its decisions on the best information, and you're the one to help us provide that.

Now, in your opening statement, you did admit that some VA services are not modeled, and you mentioned there readjustment counseling, dental services, the foreign medical program, CHAMPVA, and others.

And I guess the question I have, do you propose to have those modeled based upon this? Because yesterday, in the staff briefing, my

staff told me that the average cost of a dental exam for a returning reservist is \$3,100.

Now, this seems high, and I guess maybe two questions are, dealing with the reservist and his dental bill of \$3,100, what are the factors, and how can we plan better to handle that; and then a question is whether you're going to model on other areas that you mentioned in your opening statement.

SECRETARY NICHOLSON. Again, those are very good questions, and we are -- we're dealing with that.

The dentistry for the returnees is a new element, and I have confirmed that number, because that number seemed high to me, as well, on a per capita basis, but it's not of course just examinations. It's for dental work, and many are in need because of deferred care and so forth, of a great amount of work on their dentistry, and we're providing that to them.

So that is an accurate number, that \$31,00 per dental patient.

One of the things that we do in trying to project is to do what they used to do in total, as I testified, is to go back and see what the actuals were, to try to develop the trends and then apply an increased cost factor to that growth projection, and that's essentially what we do with those things that are not modeled.

We are searching the market to see if there are any other modelers out there in these kinds of service areas that we provide, and we have not yet found any.

MR. STEARNS. All right. Maybe one other concern I have is why are quarterly reviews not conducted?

Secretary Nicholson. Why are they not?

I will ask Dr. Perlin to give you a detailed answer on that, but we internally, sir, we do monthly reviews, and what I've said earlier in reflecting on our experiences here is that I think that we, the VA, need to come here to at least leadership, or whoever leadership delegates, to have more frequent scheduled communication on exactly what is happening with our patient trend line and our costs to that you all know exactly what we know when we know it.

Do you have anything to add to that, doctor?

MR. STEARNS. Dr. Perlin. Let me just add, as I understand it, a mid-year budget review has really showed you the difficulty here, and so the question is, you know, why don't you just move to quarterly reviews so that you detect this in a quarter, rather than a midyear, and that's really what I'm trying to get at.

Dr. Perlin. Thank you, Mr. Stearns, for that question.

In fact, we do track, as the Secretary indicated, absolutely monthly. The mid-year review presented an opportunity to come to some summary interpretation and it was simply coincidental with the escalation of use of what would have been capital funds and the need to address the difference in utilization, the number of patients compared



to what had been projected.

So in fact, the timing was coincidental, but those data were apparent during the monthly review. Mid-year simply summarized.

MR. STEARNS. Thank you, Mr. Chairman.

MR. BILIRAKIS. Would the gentleman yield for a moment?

MR. STEARNS. Glad to yield.

MR. BILIRAKIS. Dr. Perlin, do you review the the Independent Budget submitted by the veterans?

DR. PERLIN. Yes, sir, I do --

MR. BILIRAKIS. You do?

DR. PERLIN. -- review the Independent Budget.

MR. BILIRAKIS. Do you find fault with a lot of the projections and whatnot?

DR. PERLIN. I think the Independent Budget -- and there was testimony last week on that -- uses a different approach. It builds on a historical base. It makes --

MR. BILIRAKIS. Yes, and that's bad?

DR. PERLIN. That's not necessarily bad.

We don't believe it's as accurate, the ability to project different needs of service, and the needs or the services that would be required, given different policies, or what the actuarial approach applies.

When we used to do historical based budgeting, it's my understanding, and this is before my time, that the error was 11.2 percent the last time that was applied.

MR. BILIRAKIS. Well, all right. Thank you, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Thank you.

Dr. Perlin, we certainly would welcome the quarterly review, if you would meet with the Committee, and come in and let's take a look at those figures.

I now recognize the gentlelady from Florida, Ms. Brown.

MS. BROWN OF FLORIDA. Thank you.

First of all, let me just say I've been on this Committee since 1992, and the Republicans, Mr. Stearns, have been in charge of this Committee for over 10 years, and so at some point, you're going to take some responsibility for what goes on in this Committee.

Now, 81 percent of the American people said that the Congress is not in tune with what they think is important. Now, clearly they know that taking care of veterans is important.

Now, you have just given us this list of your requests. The Senate passed \$1.5 billion. I'm looking at this, trying to find out where's the main portion? Now, if we adopted -- if you had requested 1.5, the Senate did 1.5, we wouldn't have a conference. We could pass a bill before we left here tonight on the way to the President, and it's a win-win for everybody -- everybody meaning the veterans.

Why is that we're going to have to go to conference when the Senate passed \$1.5 billion, and you know that's what's needed?



Why you didn't come up here with the same request -- no conference, we pick up the Senate, when he sends it over, we pick it up, we pass it, it's on the way to the President's desk, then he's taking pictures and taking credit?

But the main thing is, the veterans will be getting the services they need right up front.

And let me tell you something. Clearly, money is not an issue, because there's plenty of money up here. The problem is priority - - whether or not the veterans are the priority or whether the tax cut is the priority.

Certainly we spend \$1 billion a week in Iraq, \$4 billion a month, but those soldiers today are veterans tomorrow, and we need to have the will to say that once they come home, "we're going to take care of you."

Now, explain to me why you didn't ask for \$1.5 billion.

SECRETARY NICHOLSON. For us, veterans are clearly the priority. That's why we're here.

That's why I went to Iraq to meet with our forces there and went to Lanstuhl, Germany to visit not only the people providing that transitional medical care to them, but to the patients there and our veterans there; and that's why I go regularly to Walter Reed and Bethesda and Fran O'Brien's on Friday nights, to visit with them, because they are coming into our system, they are -- they are me. They're veterans. That's -- nobody cares more about veterans.

MS. BROWN OF FLORIDA. Sir, let me just say, everybody on this Committee cares about veterans.

Let me tell you, I had a veteran to come into my office that had been home from Iraq for over 12 months, and had not received the proper service. He came to me with tears in his eyes, with his beret, and wanted me to have it to note that he was in distress. So we all have these stories.

And it's not what we say. We all say the right thing. It's how we vote. It's how we spend our money. That's the bottom line. It's not what we say. We talk a great talk, but we need to walk the walk.

So I want to know why is it, and I want an answer on this, that we did not -- because this is bull. This is going to take weeks. Conference, setting up a time, appointing the conferees.

We could finish this tonight and have it on the President's desk tomorrow -- 1.5 billion. Then there's no conference. The President gets the credit. But the veterans, they are the ones that will get the service right away. And we as members of Congress will do our jobs, and the American people will be able to separate some of us and feel like, "Well, they do have some of our priorities."

But as we speak today, 81 percent of them think we're not doing their work -- we don't have their priorities. What we do up here is not what they want.

But they want us to take care of the veterans, and we could do this just like that, if we had the will and cut out the bull.

Mr. Secretary, please answer my question.

SECRETARY NICHOLSON. Madam, Congresswoman, I -- you know, what we -- what we've requested here, and will come up in the supplemental request from OMB today, is what we need immediately to restore those items that we have already testified about that we were making diversions of because of our needs because of the increased growth.

I don't -- I don't believe that I can testify to you why the Senate did what it did. I know this.

MS. BROWN OF FLORIDA. Did you go over there and testify before the Senate and discuss the needs? Did you go over --

SECRETARY NICHOLSON. I have testified, yes, ma'am. I've testified.

MS. BROWN OF FLORIDA. Okay. They didn't take your recommendations as a body?

SECRETARY NICHOLSON. We testified very similarly for this amount that we were experiencing for the rest of 2005 in the Senate, yes.

But I just wanted to add that the bill the Senate has has that for 2005 and 2006.

MS. BROWN OF FLORIDA. Well, good for the other body.

My understanding is, this is just 2005. It's just 2005.

SECRETARY NICHOLSON. This is just 2005, yes.

MS. BROWN OF FLORIDA. No, sir, the Senate is just 2005.

SECRETARY NICHOLSON. I don't think so.

MR. BROWN OF SOUTH CAROLINA. I think the Senate really, when they introduced the billion-and-a-half, Mr. Secretary -- you can correct me if I'm wrong -- they didn't have the exact numbers from you when they passed the bill last night, and so they said whatever is not spent in this year would be carried forward to 2006, because you do have a 2006 problem that you haven't addressed yet, and we'll address that on a separate legislation.

SECRETARY NICHOLSON. That's correct. Yes, sir.

MS. BROWN OF FLORIDA. Mr. Chairman?

MR. BROWN OF SOUTH CAROLINA. Yes, ma'am.

MS. BROWN OF FLORIDA. But the question, and I know that the Chairman of this Committee is out working to probably come up with a proposal, but the point that I just made --

MR. BROWN OF SOUTH CAROLINA. You made a good point.

MS. BROWN OF FLORIDA. -- the point is that if we have to have a conference --

MR. BROWN OF SOUTH CAROLINA. I understand.

MS. BROWN OF FLORIDA. -- and all of that, this is going to take days.

MR. BROWN OF SOUTH CAROLINA. I understand.

MS. BROWN OF FLORIDA. But we can send a message to the American people --

MR. MILLER. Mr. Chairman, regular order.

MR. BROWN OF SOUTH CAROLINA. She's got a right --

MS. BROWN OF FLORIDA. Excuse me.

MR. BROWN OF SOUTH CAROLINA. Okay. But --

MS. BROWN OF FLORIDA. Let's don't be rude.

MR. BROWN OF SOUTH CAROLINA. Let me just ask, if I might, that you raise a good point, and I'm not sure what the logistics will be. I know they need immediate help, but I'm not so sure today has got to be the answer, but we are, at least we're working on the problem.

And thank you, Ms. Brown.

MS. BROWN OF FLORIDA. Yes, sir.

MR. BROWN OF SOUTH CAROLINA. You made a good point.

MS. BROWN OF FLORIDA. And I would appreciate, I would appreciate that we take that into consideration, and if it's because I'm a Democrat, then let it be your amendment. It doesn't have to be mine. My name doesn't have to be on it --

MR. MILLER. Mr. Chairman, regular order.

MS. BROWN OF FLORIDA. -- Mr. Miller.

MR. BROWN OF SOUTH CAROLINA. Okay. Thank you very much. Thank you, Ms. Brown.

Mr. Miller, I recognize you --

MR. MILLER. I thank the Chairman for recognizing me, and I did have some questions for the Secretary, but I would like to address the prior speaker.

Since you've been here since 1992, you should understand how regular order works. You should also understand that when we pass an interior appropriations bill in May and the Senate puts it on their interior appropriation bill, we have to conference, and that's the way it works.

They attached it to their Interior --

MS. BROWN OF FLORIDA. One darn thing, sir. I don't have to understand anything, and let me tell you something. We're not talking about Interior Appropriations. We're talking about VA emergency.

MR. MILLER. Mr. Chairman?

MR. BROWN OF SOUTH CAROLINA. Regular order.

MS. BROWN OF FLORIDA. You've got me mixed up with somebody else.

MR. BROWN OF SOUTH CAROLINA. Ms. Brown, I'm sorry.

Mr. Miller, if you will proceed with your questions to the Secretary.

MR. MILLER. Thank you.

Mr. Chairman --

MR. BROWN OF SOUTH CAROLINA. Mr. Miller?

MR. MILLER. -- we just had a 10-minute dissertation from the gentelady from Jacksonville on the fact that --

MS. BROWN OF FLORIDA. Jacksonville, Florida.

MR. BROWN OF SOUTH CAROLINA. I'm sorry, Ms. Brown, your time is

up.

Okay, Mr. Miller.

MR. MILLER. Mr. Chairman --

MR. BROWN OF SOUTH CAROLINA. Yes, Mr. Miller.

MR. MILLER. -- we just had a 10-minute dissertation from the gentlelady from Jacksonville, a member of my delegation, expressing to everybody how we could solve this problem today and that the Secretary, if he had brought the appropriate number, we would not have to go to conference.

The fact of the matter is a member who has been here, by her own admission, since 1992 should know that we would have to go to conference anyway.

And I, you know, I beg to differ. The lady is absolutely incorrect. And, you know, for her to say that I'm being rude to her is an egregious statement on her part.

MR. BROWN OF SOUTH CAROLINA. Mr. Miller --

MR. MILLER. But I would -- excuse me. You've allowed the Democrats to pontificate for the last 45 -- hour, one hour.

MR. BROWN OF SOUTH CAROLINA. I was going to ask you a question, if I might --

MR. MILLER. Yes, sir.

MR. BROWN OF SOUTH CAROLINA. -- just a procedural question.

MR. MILLER. As long as it doesn't come out of my time.

MR. BROWN OF SOUTH CAROLINA. Okay.

The billion-and-a-half was attached to the interior appropriations, did you say?

MR. MILLER. Yes, sir.

MR. BROWN OF SOUTH CAROLINA. And we had already passed our version?

MR. MILLER. Ours was passed in May.

MR. BROWN OF SOUTH CAROLINA. So you are absolutely correct.

MR. MILLER. Yes, sir.

MR. BROWN OF SOUTH CAROLINA. Okay. You may proceed.

MR. MILLER. Thank you.

The Senate last night passed theirs on an appropriations bill.

MR. BROWN OF SOUTH CAROLINA. Thank you for that clarification.

MR. MILLER. You know, I just don't understand, you know. We sit here and we all are saying we are aggravated about this issue. There's not a person in here who is not.

And we are listening to people just go on and on and on, people calling for people's resignation for the sole purpose of headlines. But if that's the case, let me see if I can make one.

If my colleague, good friend from California, is so disturbed with what's going on, if he would offer his resignation from his congressional seat, I would be glad to write him a letter of recommendation to go to work within the budget department of the Veterans' Affairs

Administration.

MR. FILNER. Would the gentleman yield?

MR. MILLER. I will not yield.

And I think that it's important that we focus on the --

MR. FILNER. Mr. Chairman, the gentleman addressed me personally.

MR. MILLER. -- the issue is that we're trying to --

MR. FILNER. The gentleman should learn not to address the other members personally if he doesn't want to be interrupted.

MR. MILLER. -- we are trying to solve a problem here.

MR. BROWN OF SOUTH CAROLINA. Regular order, and let's get back to the subject at hand --

MR. MILLER. And --

MR. BROWN OF SOUTH CAROLINA. -- and I'm sorry --

MR. MILLER. -- and --

MR. BROWN OF SOUTH CAROLINA. -- Mr. Filner.

MR. MILLER. -- and I will submit my questions for the record, but, you know, this -- the actions of some of the members of the other side, I just don't understand. They're not trying to fix the problem.

And I'm not directing it to anybody. If the shoe fits, wear it.

MR. FILNER. If the gentleman would yield, I would explain to him what we're doing.

MR. MILLER. I yield back my time.

MR. FILNER. I'd be happy to explain it to you.

MR. BROWN OF SOUTH CAROLINA. Mr. Filner, if you might -- Mr. Miller, do you have a question to the Secretary?

MR. MILLER. I said I would submit them for the record.

MR. BROWN OF SOUTH CAROLINA. Very good. Okay. Without opposition.

[The information appears on p. 94]

MR. BROWN OF SOUTH CAROLINA. Dr. Snyder.

DR. SNYDER. Thank you, Mr. Chairman.

Mr. Secretary, I was unable to be here the last time you were here. I'm one of those members that's on the Armed Services Committee, too, and it's good to see you. I appreciate you taking this job.

Is it your testimony today that this actuarial model that's used, this formula, the number comes out and that becomes the number that is submitted in the President's budget?

SECRETARY NICHOLSON. Yes, sir, that's the basis of the development of the number.

As I said, there are a few of the variables in the services that we provide that are not modeled, so we have to do a subjective projection of those, as well, but that's the basis.

DR. SNYDER. You've heard multiple discussions about Secretary Principi. The question to him a year ago, when he was asked what

number he had submitted to OMB, and he said he had submitted a number of \$1.2 billion more.

Is that because he looked at what came out of the model and decided it was inadequate and upped it by \$1.2 billion, or is it because the model generated a budget number and OMB said no, we're not going to go with the model, we're going to cut it by \$1.2 billion?

SECRETARY NICHOLSON. Congressman, I don't know the answer, I wasn't here. But let me see if one of my colleagues can help me.

DR. PERLIN. I believe the construction of the budget is in three pieces.

The actuarial model is the first piece for those services that are modeled. As the Secretary testified, there are non-modeled items, including CHAMPVA, the program for beneficiaries; dentistry; prosthetics; state veteran home per diem. And each year, as you know, the department comes forward with policies, as well.

And that is the construct of the budget, in large terms.

DR. SNYDER. One of the issues that came about, Mr. Secretary -- and I know you know the history, you're a very smart guy -- when Secretary Principi announced here in answer to a question of Mr. Evans a year ago that he had submitted a budget request \$1.2 billion more, that generated a series of events that ultimately resulted in former Chairman Smith being removed, not only from his Chairmanship, but from the Committee.

I think that sent a very strong message to the Republican caucus about being a team player.

My question for you is, have you sensed, since you've been on the job since February, that there have been any concerns expressed by any of your staff members that even though they thought that the budget numbers might not be adequate, that the model might not work because we are at war, that they had any fears that they could not step forward and express their views openly about what the true budget number should be?

SECRETARY NICHOLSON. Well, we've had a considerable amount of discussion about the budget, but it's been particularly focused on the 2006 budget, because --

DR. SNYDER. My question is --

SECRETARY NICHOLSON. -- we were in 2005 budget year, of course, when --

DR. SNYDER. My question is, have you sensed any apprehension about, with anyone on your staff, about what the ramifications might be if someone were to publicly acknowledge that the budget numbers or the model may not be adequately reflecting what's going on in the world?

SECRETARY NICHOLSON. Yes, sir.

We've had -- we've had discussions about growth, and increased demand and what -- and why and what it means and what it will

mean to our numbers and our projections, because we, as I testified, the increase in this year that we're in is over 126 percent from what was forecasted, and it's about -- about 40 percent of that total number of patients, which is about 250,000, about 40 percent of those are returnees from the combat theater.

DR. SNYDER. I understand that.

SECRETARY NICHOLSON. But thus, almost two-thirds of them are not.

And I think the reason this is happening, and this is part of what we sit there and discuss and try to understand is why is this happening, because it's a delta that's taken off, and I think it's -- I think it's because of the quality of the care that veterans are getting in those facilities, and that word is continuing to go out there.

DR. SNYDER. Mr. Secretary, when you testified here February 16, 2005, Ms. Berkley, Shelley Berkley from Nevada made the following statement, and she did not present this to you as a question, but she made a statement, and then the Chairman moved on.

She said, quote:

"The President's budget provides \$762 million less than CBO says is needed to maintain current services for veterans' health care."

She went on to say:

"And I hope you will take a good look at the proposed budget" --

MR. TURNER. Mr. Chairman, I thought we were not allowed to -- there's a sign on the door that says we should not be using cell phones. I would think that the respect for the rest of this Committee and certainly the Secretary would encourage Mr. Filner to at least get off the phone.

I apologize.

MR. BROWN OF SOUTH CAROLINA. That's a good point. Thank you.

MR. TURNER. Mr. Filner, I do believe the sign is for the entire room, not just crouching behind someone else's chair. The sign says that it's disruptive of the Committee, and clearly you don't consider that you need to comply with the rules of the room.

MR. BROWN OF SOUTH CAROLINA. Mr. Filner.

MR. FILNER. Mr. Chairman?

MR. BROWN OF SOUTH CAROLINA. Mr. Filner, I'll have to ask you to either take your cell phone off or leave the room.

MR. TURNER. Thank you, Mr. Chairman.

DR. SNYDER. You're doing well today, Mr. Chairman. You got a tough job for a stand-in.

[Laughter.]

DR. SNYDER. We're with you.

MR. BROWN OF SOUTH CAROLINA. Well, I thank you for your testimony. Looks like your time has expired. Had you concluded your question?

DR. SNYDER. No, I had not, and I would ask your indulgence, if I might here.



MR. BROWN OF SOUTH CAROLINA. How much time do you need?

DR. SNYDER. I did not give an opening statement, hoping we might be able to go around more than once. Obviously, that was misguided.

I wanted to continue with Ms. Berkley's quote from February 16th, and she says, quote:

"And I hope you will take a good look at the proposed budget and help the President see that some of these cuts do a tremendous disservice to our veterans and do damage."

Now, that's the end of Ms. Berkley's quote.

So she did not have a model in her office, but she did do her homework, and something told her -- I think it was the CBO request -- that this budget wasn't going to work.

My question is, on hearing testimony, and she did not ask for a response from you that day, what did you and your staff do in response to her comment that the budget was not going to work out, it was to be close to \$800 million short, which is very close to this number that you submitted today? How did you respond to her comment?

SECRETARY NICHOLSON. Well, we took that on board, as we do virtually everything that we hear.

We recognize and appreciate the oversight responsibility and we know that you all are sincere in your concern about veterans, and just as we are.

And so we've discussed that.

One of the things that we specifically discussed about Congresswoman Berkley's discussion and so forth was in our construction accounts, because we know of her concern about that, and whether this was going to affect our CARES projections, and where we were on all that.

And we have that amount in the budget, under our planned -- in adjustments we were planning to make through the end of the year. It was not going to affect CARES or the capital construction plans for the new VA hospital.

DR. SNYDER. Ms. Berkley's specific comment during that question was that 3,000 nursing jobs would be cut throughout the country and that was her concern.

Thank you, Mr. Secretary. Thank you, Mr. Chairman.

MR. BROWN OF SOUTH CAROLINA. Thank you, Dr. Snyder.

The chair recognizes Mr. Boozman.

MR. BOOZMAN. Thank you, Mr. Chairman.

I would like to respond to my good friend, Mr. Filner, who is a good friend. I mean that sincerely.

He made a comment earlier, that nobody was at the modeling hearing that we had on this side.

I was at that hearing, and in fact, I chaired the second panel, and myself and Mr. Michaud were the only ones here for the second panel.



You were not here.

During the second panel, and I think Mr. Michaud would agree with me, we had a great discussion, it was very, very good. But what we got was testimony about the difference in the VA model versus the regular model, so it was a good hearing.

So again, we shouldn't -- and you can --

MR. FILNER. I stand corrected. I appreciate that. Thank you.

MR. BOOZMAN. I do want to thank you, Mr. Nicholson.

I understand your work as a veteran, your credentials, and stuff like that are impeccable. Okay? I also know that you're close to the President, and I think that your very appointment really does speak highly of the President's interest in veterans.

Now, one thing that I'd like to raise a question about that I am concerned with.

Do we have a policy now that people that are enrolled, people that are within the system that haven't been around in a couple of years, non-service connected that haven't been around in two years, are they being treated as new patients to the system in the sense of being told that they're going to have to wait 18 months?

SECRETARY NICHOLSON. Congressman, anyone enrolled in the system stays enrolled, and no one is disenrolled and no one under this -- this plan that we had, this workaround through the end of the year, was going to be disenrolled or denied service from the way that we've been providing it. No, sir.

MR. BOOZMAN. Again, I had heard that maybe there was a plan that those that had not been in the system for a while -- if that were true, you would be in a situation where you're really hurting the people that weren't in the system, that you least needed to access the system that much, but veterans were counting on VA health care, and that felt like they were part of the system, hadn't been there in a while because they didn't need it.

I mean, I've been blessed. I haven't been to the doctor in three years, probably.

So, again, I would hope that with the increased funding that we're going to give, by some mechanism, it turns out -- and I think we're all committed to doing that -- that we get this straight, I would hope that those that are enrolled, the two-year deal, I hope that there's no hint of that at all.

SECRETARY NICHOLSON. Just because I want to make sure that what I stated was accurate, I'm going to ask Dr. Perlin to just elaborate on it a bit.

DR. PERLIN. Thank you, sir, and thank you for that question.

It is absolutely as Secretary Nicholson said, that no one is disenrolled. No one is disenrolled from care.

But if people do not come for care for two, three, for over two -- three, five, ten years -- they do drop off of the list.

So I would ask for your help in notifying veterans if they continue to want to seek services, to make sure that they come by at least once every two years.

MR. BOOZMAN. Again, I would argue that there's a difference in ten years and two years, and I would argue that we really need to look at that, and I think two years is probably too short.

DR. PERLIN. We can address what the duration is.

MR. BOOZMAN. Thank you.

MR. BROWN OF SOUTH CAROLINA. Are you through? Okay.

Mr. Michaud.

MR. MICHAUD. Thank you very much, Mr. Chairman.

Mr. Secretary, now I have a number of questions, and I would appreciate if you confine your response to a yes or no, or a simple one sentence answer, because they're asked in a way that you could do that, and I apologize if I have to interrupt you if you tend to go on, because I have several questions I'd like to ask.

Mr. Secretary, we need accurate information from you to ensure that veterans get access to timely high-quality health care.

Your predecessor told us, as you heard several times today, that he had requested more money for veterans' health care than he got from OMB for his budget.

Yes or no: will you tell us the amount you have requested from OMB for veterans' health care for fiscal year 2007? You will let the Committee know what you've requested, yes or no?

SECRETARY NICHOLSON. Yes, sir.

MR. MICHAUD. Yes or no: will you tell us whether you have asked OMB to resubmit the fiscal year 2006 budget to better reflect the increased demand for care?

SECRETARY NICHOLSON. Yes, sir. I testified on that, that that's coming up here soon.

MR. MICHAUD. Mr. Secretary, I'm very concerned about reports that the VA mental health care services, including treatment for substance abuse, may not have been adequately funded to meet the needs of our veterans.

Yes or no: do the current estimates for 2005 shortfall account for the total unmet mental health care needs or increased needs of Operation Iraqi Freedom or Enduring Freedom veterans? Do the current estimates account for that? Yes or no?

SECRETARY NICHOLSON. I can't answer that yes or no, I don't think, Congressman.

The answer is that it's a high priority. We have -- those needs are growing and we have requested an additional \$100 million for that in our 2006 submittal.

MR. MICHAUD. In February at the hearing on the budget, I alerted you then that I heard that VISNs were experiencing budget shortfalls. While you claimed to not have known that the VISNs were

already trying to cover the shortfalls, you should have been aware of our keen interest in the possibility of a budget shortfall.

And despite my concerns then, I never was notified by you that the VA was exhausting at least \$1 billion to cover shortfalls and had been operating with shortfalls since at least January.

You have still not even answered our post-hearing questions from February, and I don't know if they're just mine or the entire Committee. It relates back to my opening statement that Mr. Bilirakis mentioned, dealing with your former position as Republican national chair, but when I read your testimony, you state in there, and I quote:

"The VA staff had had a very candid dialogue" on the shortfall of its impact for next year's budget, but only with the majority staff.

It makes me question whether or not you are approaching the challenges facing our veterans in a bipartisan manner. Your predecessor -- unlike your predecessor, who worked with both sides of the aisle.

My question for a yes or no answer is: will you from now on include members and staff of both sides of the aisle, especially members from this Committee, for that very candid dialogue about the budget?

SECRETARY NICHOLSON. Yes, sir.

This is not a -- this is not a partisan job, and I don't see -- I don't even have time to think about --

MR. MICHAUD. I'll answer that after I have my other two questions.

At the February hearing, you said your information is our information. Yes or no: will you share in a bipartisan manner with this Committee the demand model for mental health and substance abuse service? Will you share that?

SECRETARY NICHOLSON. Yes, sir.

MR. MICHAUD. And I can appreciate your saying that you want to act in a bipartisan manner, and I agree with you, because the men and women who serve in the military, they serve for our country, not for one political party or another.

And the reason why I question that is because, when I read your statement, when your actions, you work with the majority party. You have not informed, like your predecessor in the past, to inform both chairs and Ranking Members along with majority and minority staff.

And it's written in your testimony today, and I would encourage you to work in a bipartisan manner.

I'm not looking to point fingers at you. I'm looking to make sure that we have the adequate information, and the only way we're going to be able to get that adequate information is if we have access to the information in a bipartisan manner.

So I appreciate that, Mr. Secretary, and look forward to working with you to solve this problem.

SECRETARY NICHOLSON. May I respond with one other point, Mr.

Chairman, to just try to add emphasis to my statement that I don't consider this a partisan job at all. My job is about taking care of veterans.

But in March, on March 24th, I sent a letter to the Chairman of the Appropriations Committee, Military Quality of Life and Veterans' Affairs, announcing my intention then of this transfer of money to the medical services division, and I sent a copy of that letter to Congressman Edwards, and we have had significant communication from my office with Ranking Member Evans here.

But if we -- and it sounds like we do, because perceptions are important -- need to be communicating more, we will do that. I have no difficulty with that.

MR. MICHAUD. I want to thank you, Mr. Secretary, and as I stated, my questions are a reflection of this Committee, not the Appropriations Committee, and probably we're so used to working with the former secretary of the VA, Secretary Principi, in a bipartisan manner, and I just don't see that with you thus far, and I'm going by your statement as it relates to this Committee on Page 8, where you talk about meeting with staff on June 3rd, the majority staff, not the minority staff or the Ranking Member or chair.

So I appreciate that, Mr. Secretary, and will look forward to working with you in a bipartisan manner to make sure that we do provide adequate health care for our veterans.

Thank you.

MR. BROWN OF SOUTH CAROLINA. Thank you, Mr. Michaud.

Mr. Secretary, if I might, we have other folks that want to ask questions, too, not to cut you off on this.

But I would recommend that the same information that you share with appropriations, if you would share with the authorizers, we certainly would appreciate that.

And I know it might sound like this Committee has gotten to be very partisan, but I'm telling you, we've always operated in a non-partisan spirit. We believe that the veterans is a non-partisan issue.

I certainly commend you for your service, as short a time as it might be. You know, the whole blame looks like it's focused on you, and we understand that you just arrived back in February and you're not responsible for all the sins of the past, and we certainly look forward to continuing to work with you in the future.

With that, Mr. Bradley, do you have a question?

MR. BRADLEY. Thank you very much, Mr. Chairman.

I would ask for a little bit of extra indulgence, because I also, like Doc Snyder, did not submit an opening statement.

Mr. Secretary, first of all, thank you for your service to our country. Certainly you've honored the uniform.

And we also thank you for your service in the last five months. This has probably been a very difficult time, jumping from the frying

pan into the fire, and certainly you've seen that this morning.

I think all of in this room, and a number of people have left, would admit that, as you have accurately, that we have a huge funding problem.

One thing that probably hasn't been noted enough is, and I hear this all the time, the VA service, bar none, is the best in the country in terms of medical quality of care, and as we try to deal with the funding issues, that all of us have responsibility for, in a bipartisan way, let's also not forget that the quality of care is excellent, and not only is that a tribute to your staff and your predecessor's, but the hard work that all of the people throughout our country do in serving our nation's veterans.

I would second the comments of a number of people, in particular Congresswoman Brown-Waite. I also serve on the Budget Committee, and I worked with Chairman Nussle this year to submit, between the efforts of the two of us, about a \$900 million increase to this year's budget, and projected out over the next several years, well over \$1 billion in the budget.

I was pleased that Chairman Walsh, his mark included \$1 billion more than the President's request, and I felt, and I think a lot of people felt, because the vote on that was fairly bipartisan, that the situation in regard to the veterans returning from Iraq and Afghanistan was well accounted for, and then unfortunately, the modeling errors, the shortfall have hit us, and we have to solve this problem, and hopefully with a supplemental budget today we will address that, at least to begin with.

So here are my questions, and if I have gone over my time a little bit, I ask your indulgence.

\$975 million. Does that do the job for this budget year, and it is -- are you certain of that?

SECRETARY NICHOLSON. Yes, sir. This will -- this will do the job and get us through the rest of this fiscal year. Yes.

MR. BRADLEY. Have you, because the Independent Budget writers -- and I have my notebook of the testimony that they submitted in February -- have you worked with the authors of the Independent Budget on this \$975 million proposal so that we can have faith that outside interests have sort of looked over your shoulder to say, "You know what, this is an accurate number that will solve the problem," and, you know, give us greater faith that that's the case?

SECRETARY NICHOLSON. Not specifically with these numbers. We have continuing discussions with the VSOs about budget, and they don't hesitate to express themselves to us about that.

But I cannot say that, as to these specific categories, that, you know I've listed, that we've had that kind of detailed discussion, no, sir.

MR. BRADLEY. And my last question is more one for the future, and as we look to the future, how we can more accurately predict the

needs.

And I go back to the former Chairman of the Committee, Chris Smith's bill, which nobody has brought up here today, which called for an independent panel to submit to OMB recommendations based on the VA's recommendations of service, and then that would be incorporated, as I understand it, into the OMB budget submittal, and it would be a more transparent process and a process that hopefully would not have the influence of trying to arbitrarily fit a budget into tight budget parameters, which we all know exist today, but would be a budget submittal, transparent, that would more accurately reflect the actual needs of veterans as opposed to the needs of a political process for the budget.

Is it time, Mr. Secretary, for a format similar to Chris Smith's bill, to say nothing of veterans' health care being mandatory spending?

SECRETARY NICHOLSON. I don't think that I can answer that right now, Mr. Bradley.

I'm not familiar enough with how that panel would work and what would be the juxtaposition of that with the, you know, the constitutional process and the legislative process.

I will say I'd be interested in taking a look at it. I don't know much about it.

MR. BRADLEY. Well, and I would just leave you with this thought -- thank you, Mr. Chairman, for your indulgence -- that first of all, I think we all should appreciate the clarity of the answers that you gave to my colleague from Maine, whose district adjoins mine, that you're going to work with us on a quarterly basis to make sure that the information that we have is up to date, that you'll work with us in a bipartisan fashion, and that the information that you have will be our information.

And as part of that, I think it would be appropriate as we continue with these discussions of how to resolve the 2006, the 2007, and beyond budgets, that you also look at Mr. Smith's proposal.

I think it was a very interesting proposal, somewhat modulated back from mandatory spending, but one that would hopefully remove some of the political process out of veterans' health care spending and something that certainly might be something that would be a model for how to proceed.

MR. BROWN OF SOUTH CAROLINA. Let me just say thank you, Mr. Bradley, for your leadership on this Committee, and in particular on the Budget Committee, you and Ms. Brown-Waite, and that was a good amendment you were able to incorporate.

The gentlelady from South Dakota, Ms. Herseeth.

MS. HERSEETH. Thank you, Mr. Chairman.

Mr. Secretary, I'd like to reiterate Mr. Bradley's comments as well as others on the Committee in thanking you for your very distinguished military service -- your record speaks for itself -- as well as

your service as Secretary over the last number of months, and your work to address these challenges we're identifying today.

Just a couple of questions, some followups, but one I'd like to start out with, just in terms of accessibility of various information.

Because of the concerns that many of us have had about the potential budget and funding shortfalls, Mr. Evans sent a survey to the VISNs about the budget, and it's our understanding that the surveys have been completed by the field, but they're stuck in Central Office.

Would you please make a priority the return of the survey information to us as the field reported?

SECRETARY NICHOLSON. Yes. That is sitting on my desk, and I have looked at it, and I need to review that. But I would anticipate being able to get that to him soon.

MS. HERSETH. That would be helpful.

I know you've heard some anecdotal evidence here from various members of the Committee about what's happening in their districts at various facilities, so it would be nice to see what trends and patterns might be out there to better address their concerns and their service to the veterans.

We've talked in last week's hearing about some of the shortfalls of the modeling. Have there been discussions either back when we were preparing the 2005 request or as we have done so now for 2006 and as the VA is preparing to do for 2007, as it relates to, you know, the 28-to-30 percent of the shortfall that's based on OIF and OEF?

Have you talked specifically about not only the projected mental health care needs but the fact that because of the quality of the emergency care in the field, that thankfully we have a higher rate of survivorship among the soldiers, has that been part of the modifications that may be integrated into the modeling?

SECRETARY NICHOLSON. Yes, it has.

Again, the war is a new phenomenon to the model, and certainly for 2007, which is what we're really in the middle of right now, it's a very germane category, and we're trying to understand that as best we can, and we certainly are aware of that phenomenon that you've cited, which is we have relatively more casualties than fatalities, and that most of those will eventually take off their uniform and become veterans and be in our system. Yes, ma'am.

MS. HERSETH. And then let me move to what you've provided in the breakdown, and go to the next very large number of the \$975 million, because I have a particular interest, even outside of the work on this Committee, on the costs associated with long-term care, and long-term care costs being a ticking time bomb in our entire health care system in this country.

So specifically, and we're talking about the VA system, can you describe, either you, Mr. Secretary, or Dr. Perlin, a little bit more about these two segments here on VA long-term care, why it is that



the modeling is so underestimating the cost of the long-term care for the veterans?

SECRETARY NICHOLSON. I'll ask Dr. Perlin to respond to that.

MS. HERSETH. Okay.

DR. PERLIN. Thank you very much for the question.

There was a technical error in preparation of the 2006 budget on long-term care.

Historically, there has not been actuarial data to model long-term care.

We now contract with Duke University, and they're developing more reliable estimates to develop actuarial modeling, and just as previous discussion suggested, things that aren't modeled should be modeled to improve accuracy, long-term care will be incorporated into our modeling and budget projection.

So in short, the two elements are, one we're going to actuarial projection, and two, there was a technical error that underestimated the resource need, and that's being rectified with this.

MS. HERSETH. I appreciate the response.

And if you might be willing to share with the Committee the results of your ongoing discussions and work with Duke University, so that we're better informed as to what the actuarial modeling will be that they're doing, that might actually help us in some of the other work that we're doing on other health care related issues in Medicaid spending and elsewhere to deal with long-term care costs. We would appreciate that.

Thank you, and I'll yield back.

THE CHAIRMAN. Thank you, Ms. Herseth.

Mr. Strickland, you're recognized for five minutes.

MR. STRICKLAND. Mr. Secretary, I also want to join others who have thanked you for your service to our country.

As I said in my opening statement, I did not wear the uniform. I know our Chairman has, and does, and others have.

And so I hope that nothing that we say here that could be viewed as critical of the VA or the administration of the VA would in any way reflect upon our admiration for the service that you and others have provided to the country.

Dr. Snyder's questioning sort of intrigued me a little earlier, when he was talking about the modeling, and can you say to me, or perhaps you weren't here at the time, Dr. Perlin, can you say to us as a Committee that the recommendations that have come to this Committee from the administration have been at least as robust as that suggested by the modeling, or even more robust?

Can you tell us that?

DR. PERLIN. Yes, the model is incorporated.

As I mentioned earlier, the three elements of the budget are the model items, the non-model items, including CHAMPVA, prosthet-



ics, long-term care, state home per diems, and then policies on top of that.

MR. STRICKLAND. The reason I ask the question is that, you know, it seems that much of the blame for the condition that we find ourselves in now is being attributed to faulty modeling, and so the question that I would ask is, have we received, as a Committee, budget requests that are at least as robust as would be suggested by the modeling?

SECRETARY NICHOLSON. I'm going to respond, Congressman, and then invite either of my colleagues to comment.

I was not here during that formulation.

MR. STRICKLAND. I know you weren't, Mr. Secretary, and I appreciate that.

SECRETARY NICHOLSON. But I feel comfortable in saying that the answer is yes, because what has happened is that we've had a real growth spurt, and while it has put more load on the VA system, and it perforce is costing more money to us, it's also -- and this is a very positive aspect of this whole discussion that we're having, I think -- is that people are coming to our facilities in ever greater numbers, and they're coming because --

MR. STRICKLAND. I understand.

SECRETARY NICHOLSON. -- we're doing a good job.

MR. STRICKLAND. I understand that.

But what I don't understand is that Secretary Principi sat there and he told this Committee that he had requested I think \$1.3 billion more than came to this Committee from the President's budget.

Now, was Secretary Principi just simply pulling a number out of the air, or was the Secretary's request to the President in line with what the modeling suggested was needed, and did OMB or others decide that was just more money than they were willing to spend?

That's the question, and I think it gets to something very basic here as we're trying to sort through this.

Dr. Perlin, could you answer that?

DR. PERLIN. In my involvement with this, the model data are used in their entirety.

MR. STRICKLAND. I'm sorry, sir?

DR. PERLIN. In my experience with this, the model is taken, and as I indicated, there are three elements of the budget going together.

MR. STRICKLAND. If I can just understand, what I think I'm hearing here is not a clear answer.

What I'm hearing is that the administration may be looking at the model or the modeling process as an excuse for what we find here today when other factors were considered, at least two other factors, rather than simply the modeling projections.

So maybe we should be, rather than just scrutinizing the effects of the modeling on our current situation, maybe we should look at the other factors, as well.

One more question, quickly, because my time is almost up.

Mr. Secretary, for the last two budget periods at least, the President has sent a budget where he's listed management efficiencies as a way to save money. He's also asked for an annual user fee to be imposed upon veterans as a way to get more resources, an increase in cost of prescription drugs, and the exclusion of hundreds of thousands of Priority 8 veterans.

My understanding is that you're assuming these cost savings in your future budget projections. That's just not going to happen. This Congress is not going to go along with the President's desire to do these -- you know, to impose these costs. So how do you factor that into the model?

I mean, the Congress has said on at least two budget periods that they're not going to do this, and we keep getting that from the administration.

Do you expect that that is likely to be dropped from future budget considerations, or are we going to -- I think it's sort of playing a game, because it's not going to happen. It's very clear that the Congress is not going to tolerate it.

SECRETARY NICHOLSON. I couldn't speculate further out, Congressman, but I think for the 2006 budget, where they were in there as requested, they will not be approved. They did anticipate revenue, so that revenue will need to be replaced because they will not be enacted for 2006.

MR. STRICKLAND. Thank you.

SECRETARY NICHOLSON. Mr. Chairman?

THE CHAIRMAN. Yes, Mr. Secretary.

SECRETARY NICHOLSON. I would request, if I could, a recess of just a couple of minutes. I need to walk down the hall.

THE CHAIRMAN. I understand. The Committee will stand in recess for five minutes.

[Recess.]

THE CHAIRMAN. The chair recognizes Ms. Hooley for five minutes.

MS. HOOLEY. Thank you, Mr. Chair.

I also want to thank the Secretary for appearing here today and for your service. We do appreciate that.

I have some comments and some questions.

I think you've told us that patient care was not being affected by the shortfall this year, but we've seen recent reports that detail that, in fact, patient care has been affected.

And again I'll use the example of Portland VA Hospital, which now is delaying all non-emergency surgery by six months; it's eliminating beds because it's short 150 staff; they needed 13 million in equipment and got 2 million.

How do you explain this contradiction?

SECRETARY NICHOLSON. I'll ask Dr. Perlin to respond.

MS. HOOLEY. Thank you.

DR. PERLIN. Thank you, Congresswoman, for that question.

I'm aware of some of the challenges that have occurred at Portland. There has been a turnover of senior management in the network.

And I, in fact, working with Max Lewis, who in fact I'm sparing from our Central Office here, to make sure that the services are delivered more timely, more effectively, more reliably.

MS. HOOLEY. Thank you very much.

And again, the people that are in the system and are being taken care of think they get a great treatment. It is the waiting lists and elimination of beds, and that waiting list keeps getting longer and longer.

Mr. Secretary, I just have a question, because I don't understand this.

If you knew about the shortfall in April, why did it take you two months to let us know?

SECRETARY NICHOLSON. Well, as I've testified, Congresswoman, I -- I, actually in March -- March -- sent a letter to the Chairman of the Appropriations Committee, and I sent, April 5th sent a letter to the Chairman of the -- of the Appropriations Committee in the Senate indicating that the trends were up and that we were looking at re-allocating resources to cover this.

Dr. Perlin testified in the Senate on April 7th, responded with a post-hearing letter on April 12th, acknowledging that we were making shifts for operational needs in health care delivery.

April 19th, we briefed here on this. April 21st, I met with the director of the OMB on this subject.

MS. HOOLEY. Mr. Secretary, can we get those letters? Because at least I didn't receive the letter and didn't know about it.

So I don't know about the rest of the Committee members, but if we could get that letter, I'd really appreciate it.

You know, the talk about modeling, I have a little experience in that, not much, but I know it depends -- a model depends on what information goes into the model.

And when I got this list, I was actually sort of blown away by the fact that the 2005 -- and again, I know you've only been here a short time. I know how hard it is to take over in a new spot in the middle of a budget season.

But to not forecast the impact of extending -- extended continuing operations in Iraq and Afghanistan, both for 2005 and 2006, I mean, that just sort of blows me away.

I mean, this is -- the war is the elephant sitting in the middle of the room. How could we not have put that into our model?

Anyone that wants to answer. I'm just --

SECRETARY NICHOLSON. Well, I'll take another crack at it.

Ms. HOOLEY. Okay.

SECRETARY NICHOLSON. Because again, this lag time in developing budgets in this system -- as I said we're working on 2007 now and we're modeling 2004 data.

So when we were doing 2005, we were modeling 2002. There was no Operation Iraqi Freedom.

Ms. HOOLEY. You may have been --

SECRETARY NICHOLSON. But we monitor, we monitor as we're into the year. I mean, we're not just sitting there thinking that this, you know, this is somehow all going to magically work. This is monitored.

And through the first six months of this year, it was operating, it operating right on the plan, and it wasn't -- I mean, you could see, you know, some trends that we were looking at in our monthly reviews, but it was basically in the framework.

Ms. HOOLEY. Right. But we knew how many people were over there and when they were coming back. I'm just surprised it wasn't in there.

I have one quick last question, because I know my time is running out.

This is a followup to Ms. Brown's question, from Florida.

We were told last year that we were \$1.3 billion short. I offered an amendment, several people have offered amendments to backfill that \$1.3 billion. The Senate asked for a \$1.5 billion. You've come to us with \$975 million.

I'm -- why didn't you ask for the \$1.5 billion? I'm really concerned that what you asked for is so tight and then if there's any slippage or any shortfall, you'll be back again.

I mean, why didn't you ask for the \$1.5 billion? Is there a reason?

SECRETARY NICHOLSON. Well, we asked for what we've calculated that we're going to need to get through the end of fiscal 2005, which is another 90 days.

As to 2006, which starts, as you know, on October 1st, we are asking for a million six, approximately a million six -- billion -- in addition to or on top of the netting out of those legislative proposals that we've asked for and that, as we've discussed, will probably not be approved.

If they're not approved, that's another \$1.1 billion that we will need.

Ms. HOOLEY. But again, you can always carry over that money.

I guess my concern is, when we knew last year that we were \$1.3 billion short --

SECRETARY NICHOLSON. For 2005?

Ms. HOOLEY. We knew that we were short that amount of money, at least according to the former Secretary.

I'm through with my questions. Thank you, Mr. Chair.

THE CHAIRMAN. Thank you, Ms. Hooley.

Ms. Berkley, you're now recognized for five minutes.

MS. BERKLEY. Thank you, Mr. Chairman.

I think I could say without fear of contradiction that this hearing has not been the high point of my congressional career.

When Mr. Snyder mentioned that in February when I gave my opening statement we calculated that there was an \$800 million shortfall, I can assure you that I am not a financial genius, I don't have a modeling background, my staff is young and doesn't have a background in budgets, but we were able to look at the submission, we were able to look at the needs and look at what was going to be cut in anticipation of the budget request, and come up with a number that turns out to be pretty accurate.

And if we could figure that out, it would seem to me, with all of the expertise and knowledge in your department, that you could have taken a good look at that and realized that we had a serious shortfall far sooner than you acknowledged.

I've got a piece of paper here that I'd like to submit for the record that demonstrates that the VA underestimates health care workloads every year, and it shows here what the VA submission is, and then the bar next to it has the actual figures.

And in 2002, 2003, 2004, and 2005, the submission is always far below the actual.

So I would figure, after this happens time and time again, that we would figure out how to do this better, and we need to do this.

I hope you take a look at this, and I would like to submit it for the record.

[The information appears on p. 101]

MS. BERKLEY. I'd also like to submit, and I hope that you read this too, it's: "A War of Disabilities - Iraq's hidden costs are coming home," by Ronald Glasser, and it talks about what to expect when our soldiers come back and they are veterans, and what they are going to need from their government, both in health care and medical and mental health care. That's something we need to take into consideration.

[The information appears on p. 102]

MS. BERKLEY. The information is there. I am sure the VA has it, and we need to take it into account when you come before us with requests for funding for our veterans.

I have many interests when it comes to veterans. I concentrate on what's important to my district, because that's my job and I'm the only person here that would forward the interests of the veterans in southern Nevada.

I know on Tuesday, in front of the Senate Committee, you responded to Senator Ensign from Nevada's question discussing plans for a veterans' medical complex in Vegas and the funding for the construc-

tion of this facility, which is in the 2006 budget, and you assured him that it will not be affected by the department's shortfall.

Can you give me that assurance on the record here today, so we have it in both Committees, on both sides of the aisle, and in both houses?

SECRETARY NICHOLSON. Yes, ma'am. For the 2005, the cycle that we're still in, we have architecture and planning in there, \$60 million, and as you know, that's underway, and that is not in jeopardy, and for 2006, there's \$200 million.

MS. BERKLEY. \$199 million.

SECRETARY NICHOLSON. And hoping to be able to start construction by probably late, late in that fiscal year, and get that project done.

MS. BERKLEY. I thank you for that.

And with all due respect, and I know your background and it's truly exemplary and extraordinary, I think you need to know more about the department that you are heading when you come back and testify again to this Committee, and I say that with all due respect.

Thank you.

THE CHAIRMAN. Thank you, Ms. Berkley.

Mr. Secretary, one thing that we haven't discussed here today, it's the accounts receivables. We will have a follow-on, we will continue our oversight with regard to the methodology of the health modeling.

I know that on June 10th there was a briefing for the majority and minority staff whereby we were informed that the accounts receivable as of that date were in excess of 600 million.

Can you tell me what the number is today, and how the accounts receivable were taken into consideration with regard to the request that you had made to me earlier in this hearing?

SECRETARY NICHOLSON. I'm going to call on staff for the specific numbers, Mr. Chairman, and proceed with an overview.

There's a real emphasis on increasing our collections. I think that it's also worth noting that the department has done a pretty exemplary job in recent years in going from collecting very little to now collecting in excess of \$2 billion, I think.

There are difficulties in this, systemic difficulties which we're also working on, particularly on the IT side of our endeavor, because the hospitals have dissimilar back office procedures.

Each of these hospitals, it seems like, has sort of grown up on its own, and they're not as standardized as they need to be, and that is a goal of mine, is to enhance that so that the IT part that's needed to refine this system of collections can be put in place, but I don't want to minimize the difficulty and challenge of that because of the dissimilar systems that seems to be in each of these hospitals.

Having said that, let me call on Dr. Perlin to try to respond to you specifically.

DR. PERLIN. Thank you, Mr. Secretary.

Mr. Chairman, just as the Secretary said, this year the total collections are approaching almost \$2 billion. The goal is 1.879. This reflects double digit growth for each of the past years. In fact, it's up 200 percent since fiscal year 2001 when it was really less than \$600 million.

But our ability to collect is improving. We'll benefit from the information systems.

I need to get back to you with the exact number on the accounts receivable that is outstanding, I believe. Mark Loper, our chief business officer, would have that at hand.

THE CHAIRMAN. Would you concur that the number that was briefed to minority and majority staff, that it's in excess of 600 million, is still accurate, and the number could even be larger?

DR. PERLIN. I'd have to get back to you. I would be remiss in speculating, in terms of not knowing exactly what debt is truly collectible and what debt is not good debt.

THE CHAIRMAN. All right. I'm not interested in quibbling with you, Mr. Secretary, nor your staff.

We recognize that, you know, when we say with regard to the uncollected third party debt, ranges between 1 billion and 3 billion are a pretty wide variance. And we don't even know what the total universe is to be collected.

So Dr. Perlin, and Mr. Secretary, and the general counsel, the three of you, we are trying to be helpful to you.

So in cooperation with the appropriations staff, you know, we did the pilot out in Ohio, and now this Committee recently just passed a second pilot, competitive pilot for you to improve this.

Mr. Secretary, when you mention the IT, we want, and as a matter of fact are sending you dollars to the business office so that you can do the redesign of the business processes on collection.

Obviously, in your modeling, you also do your accounts receivables, and if we're going to move into this era of the 7s and 8s and caring for the veterans for non-disabled illnesses and injuries, we have to be able to collect those monies, because Congress said that we will open up the system based on the need and the means.

And so in your modeling, if you're saying, "Well, we think that we're going to be collecting this money," and now we've got 600 million or more that's not even being collected -- wow! I mean, we have problems in there business process systems which have to be corrected.

So with regard to this legislation on the second pilot, to the general counsel, to please proceed at all due speed would be my request of you, and Mr. Secretary, if you have any follow-on that you would like to make on accounts receivables, I would ask your comments.

SECRETARY NICHOLSON. We'll get back to you as quickly as possible



on the specific answer to that 600 million.

THE CHAIRMAN. All right. If you're able to do that in the next several hours, please contact my staff so I can be in touch with the Appropriations Committee.

Mr. Secretary, I apologize that I had to leave the room. I took your request of a supplemental appropriation, and notified the leadership.

I've spoken with Chairman Walsh. They are drafting the legislation. I am most hopeful that sometime before we break on this July recess that Congress will act upon your request.

SECRETARY NICHOLSON. Thank you, Mr. Chairman.

The Chairman. And we will do that. I appreciate you coming before the Committee. I appreciate, Dr. Perlin, your candor in response to this last week and the work that you've done with this in the meantime.

And Mr. Secretary, you also were picking up the same evidence that every member of this Committee was with regard to our own VA hospitals and our veterans.

I know you proposed workaround solutions. You were trying to see if you could do it within your budget. I respect you for your leadership to come before this Committee and to make this request for a supplemental appropriation, and we will be acting on it hopefully today.

MR. MICHAUD. Mr. Chairman?

THE CHAIRMAN. Yes?

MR. MICHAUD. If I understand you correctly, we're going to request the amount that's on this sheet?

THE CHAIRMAN. The 975 million, yes. The only thing that may change is, I need to talk about this accounts receivable question.

MR. MICHAUD. Okay. My second question, Mr. Chairman, looking at the sheet the department passed out, it looks like they cut off something over here when they Xeroxed this off, and I'm just wondering, since the department requested additional funding for 2006, if that is the case, can we --

THE CHAIRMAN. I asked for that to be copied, and they had notes written on the side. I said, "I don't want your notes, just give me what you can right now."

MR. MICHAUD. Okay. Since they have requested for 2006, can we get categories similar to this from what the additional --

THE CHAIRMAN. They have not, as far as I know. We are going to work with the administration with regard to an 2006 budget amendment, so what was done today will be the supplemental on 2005.

MR. MICHAUD. Yes, what's done for today, but my --

THE CHAIRMAN. Today a supplemental appropriation, I'm hopeful, will be done for fiscal year 2005 in the amount of 975 million.

We will continue to work with the administration with regard to a



budget amendment which they will submit to us, that could occur in July or in September, and that's why this Committee will continue its further oversight with regard to this modeling and methodology on how we get this right.

We're going to get it right.

MR. MICHAUD. But my question is, they had mentioned that it appears that in 2006 they're going to be short \$1.6 billion.

Under that assumption, they must know where that shortfall is going to be.

And I guess my question to you is, could we have them -- and it might change -- could we have them provide us where their assumption currently is?

THE CHAIRMAN. We're going to continue that dialogue, Mr. Michaud, and I'll assure you you'll be a part of that process.

Ms. Herseth?

MS. HERSETH. Mr. Chairman, thank you.

Just a quick followup before we adjourn, to Dr. Perlin, based on some questioning I was --

THE CHAIRMAN. Without objection.

MS. HERSETH. -- on long-term care.

THE CHAIRMAN. One question.

MS. HERSETH. You had mentioned that the projections were off for long-term care because of a technical error, and so if you might, in addition to what I requested about what you're working on with Duke University, if you could provide the Committee and staff with a copy of the long-term care projections for 2006 and for 2005, given that's what we were talking about earlier, given that that's a substantial part of the shortfall, that would be appreciated.

Thank you.

THE CHAIRMAN. I just want to make sure.

You concur with the actions of the Committee here for us to focus on the redesign of the business processes to capture the total universe on these collections and to move at due speed, correct?

SECRETARY NICHOLSON. Oh, yes, sir. Indeed, we welcome your support.

THE CHAIRMAN. All right. Very good.

[The statement of Hon. Luis V. Gutierrez appears on p. 81]

The Chairman. This hearing is concluded.

[Whereupon, at 1:10 p.m., the Committee was adjourned.]

## APPENDIX

**Statement of Honorable Lane Evans  
Ranking Democratic Member  
House Committee on Veterans' Affairs  
Full Committee Hearing on VA Budget Shortfall  
June 30, 2005**

Thank you, Mr. Chairman. I look forward to hearing exactly how we got into this situation, and what your plans are for addressing the shortfall this year and next. I also want to hear from VA as to what you plan to do to prevent this from happening again. I disagree with comments made by the Secretary earlier this week – this is certainly a problem, and definitely a crisis.

I'm angry, and I know many of my colleagues are angry. This is an issue of credibility. The credibility of what you tell us here in Congress. The credibility of your budget process. You blame your budget model – but year after year you underestimate in your February budget submissions the number of veterans who will seek care. I don't understand why you are expressing surprise when you've underestimated this once again.

VA assures us that this \$1 billion shortfall is not affecting patient care. This is not correct. Democratic staff have compiled a snapshot of how this shortfall has been affecting patient care. I ask that it be entered into the record.

We hear on this Committee how patient care is being affected. Either you do not, which goes to the question of your leadership and your management capability, or you do hear and choose to tell us otherwise.

We are still awaiting answers from your February budget hearing, and I'm still waiting for the answers to a simple survey we sent out months ago to gauge the fiscal health of the networks – the answers to these surveys have been held by VA headquarters, and they will not release them.

Yet you told us in February that the VA's information was our information. This does not seem to be the case. We only found out about this shortfall at last week's hearing. It appears you knew about it in April. You claim that you have been "forthcoming," but this has clearly not been the case. You are doing no one any favors, least of all yourself, by not leveling with us. We need honesty and accuracy from the VA so that we can do our job, and help you do your job.

We are very concerned over the current shortfall, the proposed shortfall next year, and what you are doing to assemble your FY 2007 budget in an accurate and realistic fashion.

Your predecessor, Secretary Principi, forthrightly told this Committee how much more he had requested for his budget than what he had actually been provided. What was the difference between what the VA requested and what they obtained from OMB for your FY 2006 budget?

How many clinics have you closed, understaffed, or delayed the opening of?

How are you going to address the situation faced by veterans in VISN 16, where, as of the end of April, no appointments may be scheduled for new non-service-connected veterans? And how can you say that this is not directly related to the \$1 billion shortfall you currently face?

I look forward to hearing your straightforward and accurate responses to these questions, and the questions of my colleagues.

Congresswoman Darlene Hooley  
House Veterans Affairs Committee  
Hearing on \$1 billion shortfall  
June 30, 2005

America is currently asking more of its all-volunteer military force than it ever has before. Yet even as America is continuing its large and prolonged military campaign in Iraq, we have done very little to provide for the veterans of this war. The Administration must ensure that the VA not only has the funding they need to meet current obligations but also that future budgets more accurately meet the needs of our veterans.

Last week, Department of Veterans' Affairs officials acknowledged that VA hospitals and clinics across the nation are operating with a \$1 billion shortfall.

As a result of this shortfall, the Portland VA Medical Center is delaying all non-emergency surgery by at least six months. For example, veterans in need of knee replacement surgery won't be treated because of the budget shortfall. Recent visitors to the short care stay unit were surprised to see a handwritten sign declaring that "due to budget issues, we can no longer supply meals to patients," and asking patients to bring a meal from home.

The facility is reducing staff as a cost-cutting measure and is now short at least 150 hospital staff, including nurses, physicians, and social workers. As a result of budget cuts for staffing, the VA has cut the number of medical beds available to care for veterans.

And for fiscal year 2005, the facility needed \$13 million for medical and clinical equipment but only received \$2 million.

In March, the Republican leadership of the House refused to allow us to debate and vote on an amendment that I tried to offer that would have added \$1.3 billion to the Supplemental Appropriations bill specifically for Veterans Health Care. Had we been allowed to debate whether the VA needed supplemental funding March, we could have prevented this budgetary crisis.

Not one soldier who puts his life on the line should have to worry about getting health care when he or she returns from battle.

But how are we supposed to provide adequate health care to these new veterans when we can't even meet the needs of our current veterans?

Our returning soldiers deserve better. Congress must act now to correct the VA's current budget shortfall by considering a supplemental appropriations bill that will address the veteran's health care shortfall immediately.

Miller

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Our work is cut out for us today. We've got to get an accurate assessment of VA's present fiscal situation. We need to have a frank and open discussion of the possible solutions for meeting the newly-discovered challenges of both the Fiscal Year 2005 and 2006 VA budgets. We have to determine the best course of action to address the current need. And we have got to take the corrective actions necessary to prevent this situation from *ever* happening again.

Those who would say that this Committee hasn't been attentive to the needs of America's veterans are either misdirected or seek to misdirect their audience. The VA budget has seen a 42 percent increase in just the last four years. Medical care funding itself has increased 38 percent. As the result, a record number of veterans are receiving health care today – nearly five million to be precise – that's one million more than just four years ago. GI Bill benefits have been boosted by 46 percent, VA home loan maximums will have increased 67 percent since 2001, and dozens of veterans benefits and services have been expanded and improved.

We've done these things because we're given things like VA's Budget request, and VA's 5-year Capital Plan, and the CARES Report, and President's Task Force Report, and VERA. We use these tools; we rely upon them, and the assurance that they are accurate.

And now we're learning that "projected workload growth" estimates are grossly off the mark. And we're learning that taxpayers' dollars are already being reprogrammed. Yesterday, CQ reported that "the VA is compensating for the fiscal 2005 shortfall by diverting some \$600 million budgeted for capital infrastructure projects to health care and using as much as \$400 million that was supposed to be carried over into its fiscal 2006 budget.

Did someone think no one would notice?

I'll tell you who will notice. The 100,000 veterans in my district, some with whom we broke ground on the Navy-VA superclinic at NAS Pensacola in April, Mr. Secretary. That's a capital infrastructure project that's been long overdue for thirty years, and my #1 priority since coming to Congress. Have the construction dollars for that project been "diverted"? How about for the Air Force-VA clinic at Eglin Air Force base? VISN 16 has committed FY05 dollars to design, and is scheduled to break ground after the first of the year? We stood on that plot the same day we broke ground in Pensacola, Mr. Secretary. If we come to a screeching halt on this progress, veterans will notice. This can't simply be swept under a rug any longer.

We are constantly challenged on the degree to which we Keep Our Promises to the men and women who've borne the battle. I think we've done fine job, given the information we've been presented. But accountability is paramount here. We've got get to the root of the problem and prevent this situation from *ever* happening again. I stand ready to work with you, Mr. Chairman, our colleagues on this Committee, and with you, Mr. Secretary. This will not be quick or easy, but its our collective duty to get it right.



Statement of Congresswoman Shelley Berkley  
House Committee on Veterans' Affairs  
Oversight Hearing on the budget for the Department of Veterans Affairs  
June 30, 2005

Thank you, Mr. Chairman. The recently uncovered shortfall in the VA budget clearly demonstrates what many of us sitting here have been saying from the beginning of this budget process...our veterans are being shortchanged by billions of dollars.

I am concerned about the VA Southern Nevada Healthcare System as they struggle to provide health care to over 50,000 veterans and 500 new veterans from Operation Iraqi Freedom and Operation Enduring Freedom. Southern Nevada has one of the fastest growing veterans populations in the nation and the VA is working hard to take care of all of these veterans.

However, I fear that if the shortfalls continue in 2006, veterans care will suffer. It would be a shame to believe that under this crisis, there is no harm to our veterans who receive their care at the VA.

As you know, I have been working tirelessly to get a new VA hospital in Southern Nevada since the VA moved out of their facility in Las Vegas two years ago. The VA is planning to begin construction on the new VA medical complex in 2006 and the funding for the construction of this facility was in the President's budget request. I am concerned with the Administration dipping into its capital spending accounts to cover the shortfall. Moving funds away from the facilities cannot continue. If adequate infrastructure is not provided, especially in my community, veterans quality of care will suffer.

I believe that Congress must act immediately to fulfill our obligations to veterans for FY 2005 and 2006. We must also fix the process used by the VA to estimate future demand on health care services so these shortfalls do not happen again. I am pleased that the Senate acted quickly and passed legislation yesterday to add \$1.5 billion in emergency funding for the VA. I hope we in the House will soon follow. I have many questions on this crisis and look forward to hearing from the Secretary. Thank you.

**Congresswoman Brown-Waite Opening Statement**  
**Veterans Committee Hearing: Budget Methodology**  
June 23, 2005 / 10 a.m. / 334 Cannon

Mr. Chairman, I would like to thank you for holding this hearing today.

The VA budget is often a contentious subject, given Congress' need to balance fiscal restraint with quality care for America's veterans. As the Member of Congress with the largest number of veterans, I struggled to balance my veterans' needs with the need for spending restraint.

We all recognize the pressing need to provide care for our returning servicemen and women who bravely fought in Iraq and Afghanistan. However, as we well know, disagreements over funding have faced the Committee since we received the Administration's budget.

In the end, VA healthcare received a significant budget increase of \$1.64 billion over the 2005 funding level. Overall, VA spending has increased 42% in the last five years. However, without a more thorough evaluation of budget procedures, Congress may be blindly giving too much or too little money. Meaningful, effective changes in forecasting VA needs in the budget process will go far toward unifying Congress behind one accurate funding request.

Fiscal accountability demands that we take great care in how we spend taxpayer money. As such, we must ensure that the VA consistently and accurately records their financial needs. I look forward to hearing ideas from each of our witnesses today to ensure our annual budget process accurately reflects our veterans' needs while encouraging prudent spending habits.

STATEMENT OF CONGRESSWOMAN STEPHANIE HERSETH  
Oversight Hearing Regarding Department of Veterans Affairs'  
Health Care Budget Shortfall  
June 30, 2005

Thank you Secretary Nicholson for being here today. I appreciate hearing your testimony and for taking the time to listen to our concerns and your willingness to work together to solve a problem that in my opinion was clearly foreseeable.

I am afraid that the health care budget short-fall recently announced by your Department is further evidence that the misgivings many members of Congress, veterans, and veterans service organizations have had about the VA health care budget in recent years have not been given sufficient consideration when it comes time to write the budget. I hope that after today's hearing you will join our efforts to ensure an increased level of funding for veterans health care to prevent similar problems in the future.

With young men and women returning home by the thousands from Iraq and Afghanistan, often with significant medical needs, it is simply unacceptable that the VA would not have the resources it needs to support crucial health care programs for these heroes. Taking care of veterans should be at the top of our list of priorities. The cost of veterans' health care should be viewed as an ongoing cost of war, and appropriately funded. Providing the benefits earned by veterans—yesterday's heroes and today's—is part of the federal government's responsibility to provide for the common defense.

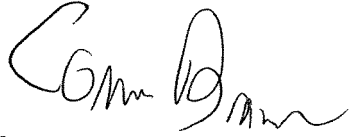
The necessity to reprogram \$1 billion to the medical services account for Fiscal Year 2005 and possibly up to \$2.7 billion over the President's request for Fiscal Year 2006 is an obvious signal that VA health care is not suitably funded to meet the needs of our veterans. However, this is not the first indication that a problem exists. This is not a problem that has crept into the system in the last few months. It is a problem that has existed for many years. In fact, throughout the Memorial Day Recess, I held town hall meetings across my district with veterans and their families to discuss precisely this problem—budget shortfalls for this year, next year<sup>and</sup> beyond.

Moreover, veterans didn't need to hear from the VA that a short fall exists to know there is a problem. They know because some of them are being left out of the system, others are receiving care in decrepit facilities, and many must suffer through long waiting periods to receive an appointment. These problems won't be fixed by making a one-time adjustment to the budget – they will only be fixed if those who assess the needs and submit a budget understand and accept that the VA health care system is not adequately funded.

In addition, we should not be assessing more fees and higher co-payments on veterans to overcome funding shortfalls. The cost of veterans' healthcare must be spread across all Americans—all of whom benefited from veterans' military service in defense of our freedoms.

I am pleased that we are now working to solve the shortfall in FY2005 and FY2006, and I commend the tremendous work done by the VA and its employees. It has come a long way in recent years. However, I think the

VA can do even better if Congress and the Administration work together to provide our veterans with the resources they need and deserve.



Rep. Corrine Brown  
Committee on Veterans Affairs  
Oversight hearing on the Department of Veterans' Affairs  
The Honorable R. James Nicholson Secretary  
June 30, 2005  
Statement

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Thank you Mr. Chairman.

I am amazed that we can understand what is being said because all these Republicans are talking from both sides of their mouth.

On one side, all the talk this week is of how bad it is that the VA is short of funds for veterans' healthcare.

On the other are the proposed budgets by the administration and the Republican leadership that continually underfunded veterans healthcare.

Finally, though, the real facts come out.

I am amazed what can happen in this city when someone speaks the truth.

In Fiscal Year 2005, funding is short by over \$1 billion, \$400 million from carryover money that is for emergencies, \$600 million in “non-critical”

infrastructure monies, building maintenance and operations and \$273 million from underestimating the number of veterans who would be using the VA system.

In Fiscal Year 2006, the Department will need an additional \$1.5 billion. That includes \$375 million to refill the cushion that would be depleted this year; \$700 million for the department's increased workload; and a \$446 million error in estimating long-term



care costs.

In addition, the user-fee and increased co-pay were dead on arrival here in Congress, yet are still included in the assumptions you are using for the budget.

I am waiting for the real number, not the number that OMB approved, or the number that does not include all the servicemembers returning from Iraq and Afghanistan.

The real number that will fund buildings and operations maintenance, that will fund elimination of the backlog of cases, the backlog of initial physicals that veterans are waiting for, that will fund healthcare.

I do not care about modeling, or numbers or statistics. I care about people. You are spending too much time worrying about numbers and how much it cost to care for our veterans that you forgot about the veteran.

I care about the veteran in Vermont who could not get care because the White River Junction VAMC in Vermont was closed because there were no funds in the building and maintenance account to fix the air conditioning.

I care about the 700 service connected veterans waiting in Gainesville in my district who have been waiting for over 30 days for an initial appointment because you are worried about your picture not being up in every VA medical center. Staff might be more

motivated if there was a portrait of  
Former Chairman Chris Smith in the  
building.

\*Get your priorities in order. The  
veterans come first. By your hiding  
behind shifting money around while  
veterans do not get the care they deserve,  
I feel as though you forgot that.

I am very disappointed in what you have  
wrought.

OPENING STATEMENT OF  
LUIS V. GUTIERREZ

The House Committee on Veterans' Affairs

"Hearing to Examine Supplemental Healthcare Funding for the VA  
for FY 2005 and Implication for FY 2006 "

June 30, 2005

Thank you, Chairman Buyer and Ranking Member Evans, for holding this very important hearing today to receive testimony from the Secretary of the Department of Veterans Affairs concerning the enormous shortfall in funding for veterans health care the VA is currently facing, and what we can do as a committee to make sure this does not ever happen again.

Democratic members of this committee addressed this situation while we completed our Budget Views and Estimates earlier this year. In our dissenting views, we exposed the fact that the budget proposal was grossly inadequate. It was our belief that the funding for medical programs in the VA budget underfunded critical programs by \$2.4 billion in FY 06, even when taking into account collections.

These estimates were rejected by the majority, but we now have a front-row seat to the results of a misguided budget that inadequately funds health care for our veterans.

I am particularly concerned with how this shortfall will affect the veterans who live in my district and around Chicago. These veterans have seen their fair share of the affects of funding and management problems within the VA. For example, *The Chicago Sun-Times* has reported that Illinois veterans consistently lagged behind their fellow veterans in their disability benefit compensation. After an Inspector General Report was completed in May, the VA has since committed to send a special unit to investigate and resolve the problem. I hope we are not faced with a situation where that initiative is delayed because of insufficient funds.

During the Capital Asset Realignment for Enhanced Services (CARES) process, Chicago-area veterans were promised a new bed-tower at the West Side VA Hospital in Chicago by 2007. The VA planned to fund the cost of this bed-tower by selling an enhanced use lease (EUL) to its Lakeside VA facility. The VA estimated the sale would generate somewhere between \$90 and \$108 million. However, the VA did not find a bidder on schedule, and was left without the anticipated funds to construct the new tower. When Members of the Illinois delegation wrote to then-Secretary Anthony Principi about how the VA would fund this critical hospital, he responded:

Regardless of the synchronization of the EUL project and the bed tower project, VA will proceed on schedule with the West Side bed-tower project whether the funds are generated from the Lakeside lease or from FY 2004 funds.

The Secretary also wrote that "additional dollars will be funded in FY 2004 Minor Construction and Non-Recurring Maintenance (NRM) projects."

This is exactly some of the funding that Secretary Nicholson has mentioned will be able to carry the VA through this Fiscal Year. The VA describes these funds as "predominately for repairing or improving existing space - not for new construction." The VA gives examples of typical NRM projects like roof replacements, resurfacing parking lots and replacing windows. It certainly appears to me that building a new bed-tower is not on the same level as replacing a window.

Lastly, Chicago veterans are eagerly awaiting a new combined homeless residence for veterans and a VA health clinic at St. Leo's on the Southside of Chicago. Will this project be subject to future shifts in funding or more shortfalls in the budget?

The examples in Chicago are just some of the many promises that have been extended to veterans across the country. The VA now has its back against the wall and I hope that they can deliver on these promises that our veterans deserve and earned by their service and sacrifice.

I hope that we can work together on a bipartisan basis to give the VA the funding it desperately needs now and that we can work quickly to fix a broken system of funding our veteran's health care. Each year, our veterans must compete and fight for each dollar of their health care funding during the annual appropriation process. I think this fiasco has made it even more clear that we need to move forward with Ranking Member Evans' HR 515, the "Assured Funding for Veterans Health Care Act of 2005." This legislation would create assured funding for the Department of Veterans Affairs health care system, based on the number of veterans it serves and the medical inflation rate for hospitals. This landmark legislation would help avoid these budget shortfalls and provide real resources to meet real needs.

Mr. Chairman, I thank you for the time and look forward to the testimony of Secretary Nicholson.

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**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515-2703**

Statement of Representative Tom Osborne

Hearing on the Department of Veterans Affairs' necessity to reprogram \$1 billion to the medical services account in Fiscal Year 2005 and its implication for Fiscal Year 2006.

House Committee on Veterans' Affairs  
June 30, 2005

Mr. Chairman, Ranking Member, Members of the Committee, thank you for the opportunity to share with the Committee my concerns regarding the shortfall in funding for veterans' health care.

As you are aware, Secretary of Veterans Affairs Nicholson has acknowledged that the Department of Veterans Affairs' (VA) shortfall in funding for veterans' health care is likely to total at least \$1.5 billion in Fiscal Year 2006. Other estimates indicate that the shortfall could be even greater. VA officials have stated that the unexpected shortfall occurred because an inaccurate, two-year-old financial model had been used to calculate the spending requests. It is also apparent that the model underestimated the impact of the war on terror in Afghanistan and Iraq. The VA has used more than \$300 million on health care services from a fund that had been expected to be carried over into the fiscal year 2006 budget, and as much as \$600 million originally intended for capital spending will go toward the shortfall. However, these numbers may vary with an increased shortfall in funds.

I am greatly concerned about the effect the funding shortfall will have on veterans. It is important to take care of our veterans, and we owe our current and future veterans the proper health care that they deserve. They have given much to ensure the freedom that we enjoy today and will celebrate on July 4<sup>th</sup>. Many veterans who are enrolled in the VA system, including veterans in my district, must travel great distances to reach a health care facility. Due to my concern for rural veterans' health care, I have introduced H.R. 1741, the Rural Veterans Access to Care Act, in order to address some of the issues facing rural veterans seeking health care. Any funding shortfall could make it increasingly difficult for these veterans to obtain needed health care. It is critical that the administration and Congress work together to produce an appropriate solution to the shortfall. I stand ready to assist the Committee in any way possible.

Thank you, again, for the opportunity to express my concern for our country's veterans.

**STATEMENT OF  
THE HONORABLE R. JAMES NICHOLSON  
SECRETARY  
DEPARTMENT OF VETERANS AFFAIRS  
BEFORE THE  
HOUSE VETERANS AFFAIRS COMMITTEE**

**JUNE 30, 2005**



Mr. Chairman and Members of the Committee: Thank you for the opportunity to discuss the budget forecasting and finances of the Veterans Health Administration. Accompanying me this morning is our Under Secretary for Health, Dr. Jon Perlin and our General Counsel and Chief Management Officer, Mr. Tim McClain.

### **Background**

Mr. Chairman, in considering our budget planning and execution, I'd like to address three topics. First, how does VA rationally project resource requirements for the health care needs of Veterans? Second, why is there discrepancy from projections and what is the current status of resources? And, finally, what can we do to improve the budget formulation process and the current budget status?

### **Projecting Resource Requirements:**

The Veteran's Health Care Eligibility Reform Act of 1996 established a uniform package of health care services for enrollees. The legislation also established a priority-based enrollment system and required the VA Secretary to annually assess veteran demand for VA health care to determine which priority levels of veterans will be eligible to enroll for care based on the resources available to provide timely, quality care to all enrollees.

Eligibility reform contributed to the transformation of the Veterans Health Administration (VHA) from a health care system that provided episodic, inpatient care to a health care system that provides a full range of comprehensive health care services to enrollees. The focus on health promotion, disease prevention and chronic disease management has resulted in more effective and more efficient health care. As a result, the range of health care services utilized by VHA patients began to mirror that of other large health care plans. Therefore,

VHA decided to follow private sector practice and use a health care actuary to predict future demand for VA health care services. Mr. Chairman, transforming from a hospital system to a health care system has facilitated VA's ability to take a leadership position in health care quality in the United States. A recent Washington Monthly article stated the Veterans Health Administration gives the "best care anywhere." Additionally, the results of a recent study conducted by the independent RAND Corporation revealed that based on 348 measures of performance, VA provides systematically better care in disease prevention and treatment.

In the past, VHA budgets (and most Federal budgets) were based on historical expenditures that were adjusted for inflation and then increased based on proposed new initiatives. However, rather than an arbitrary increase over prior budgets, with the implementation of eligibility reform and the shift to ambulatory care, VHA needed to more rationally budget for veteran requirements in a transformed health care system. It also needed to be able to continually adjust its budgetary projections for effects of shifting trends in the veteran population, increasing demand for services, and the escalating cost of health care, e.g., pharmaceuticals.

As a result, VA engaged Milliman, Inc., to produce actuarial projections of veteran enrollment, health care service utilization, and expenditures. Milliman consults to health insurers and as such, is the largest and most respected actuarial firm in the country in the area of providing actuarial health care modeling.

#### **VHA Enrollee Health Care Demand Model**

The VHA Enrollee Health Care Demand Model (model) develops estimates of future veteran enrollment, enrollees' expected utilization for 55 health care services, and the costs associated with that utilization. These projections are available by fiscal year, enrollment priority, age, VISN, market, and facility and are provided for a 20-year period.

The model provides risk-adjustment and reflects enrollees' morbidity, mortality, and their changing health care needs as they age. Because many enrollees have other health care options, the model reflects how much care enrollees receive from the VA health care system versus other health care providers. This is known as VA reliance. Enrollee reliance on VA is assessed using VA and Medicare data and a survey of VA enrollees. The VA/Medicare data match provides VA with enrollees' actual use of VA and Medicare services, and the survey provides detailed responses from enrollees regarding any private health insurance and their use of VA and non-VA health care.

The model projects future utilization of numerous health care services based on private sector utilization benchmarks that are adjusted for the unique demographic and health characteristics of the veteran population and the VA health care system. The actuarial data on which the benchmarks are based represent the health care utilization of millions of Americans and include data from both commercial plans and Medicare, and are used extensively by other health plans to project future service utilization and cost.

The model produces projections for future years using health care utilization, cost, and intensity trends. These trends reflect the historical experience and expected changes in the entire health care industry and are adjusted to reflect the unique nature of the VA health care system. These trends account for changes in unit costs of supplies and services, wages, medical care practice patterns, regulatory changes, and medical technology.

Each year, the model is updated with the latest data on enrollment, health care service utilization, and service costs. The methodology and assumptions used in the model are also reviewed to ensure that the model is projecting veteran demand as accurately as possible. VHA and Milliman develop annual plans to improve the data inputs to the model and the modeling methodology. Notably, Mr. Chairman, perhaps going to a focus of the Committee today, on average for the past three years, patient projections have been within -0.6 percent of actual patients and enrollee projections have been within +1.9 percent of actual enrollees.

As required by eligibility reform legislation, VA annually reviews the actuarial projections and determines whether or not resources are available to meet the expected demand for VA health care and develops policies accordingly. For example, the model's projection of continued significant growth in enrollment in Priority 8 formed the basis of VA's decision to suspend Priority 8 enrollment in January of 2003, to ensure that resources were available to provide timely, quality health care to enrolled veterans.

Over the past six years, VHA has integrated the model projections into our financial and management processes. The VA health care budget is now formulated based on the model projections, as are the impact of most policies proposed in the budget.

Some services VA provides are not modeled by Milliman. These include readjustment counseling, dental services, the foreign medical program, CHAMPVA, spina bifida, and non-veteran medical care. Demand estimates and budgets for these programs are developed by their respective program managers.

Enrollee demand for long-term care services is modeled by VHA. The VHA long-term care model uses utilization rates from nationally recognized surveys adjusted for the unique characteristics of the enrollee population and known reliance factors to account for distance (access to VA facilities), multiple eligibilities, and case management to project demand for both nursing home care and community-based care.

#### **Discrepancy from Projections and Status of Health Care Resources:**

Actuarial modeling is the most rational way to project the resource needs of a health care system like the Veterans Health Administration. As noted, this is the approach utilized private sector. Unlike private sector, however, where projections are used to formulate budgets for the next year or even the next "open season," the Federal budget cycle requires budget formulation using data two and one-half to three and one-half years ahead of budget execution.

For example, the data used to formulate the budget for 2005 derive from health care utilization in 2002, in this case, the last full year of data before the Department's 2005 budget formulation began. While it is remarkable that the budget has been as accurate as it has, a lot can change in three years. .

The actuarial projection model forecast numbers of enrollees. The number of patients from the enrollee pool is a derivative calculation based on what has been, to date, a fairly constant relationship. One factor that has compounded the projections is the increased utilization of health care services by enrolled Veterans in all priority levels and from all combat eras.

The actuarial model forecasted 2.3% annual growth in healthcare demand in FY2005. We discovered that growth has accelerated through April, 2005 to 5.2% above FY2004, which is almost 3% above our annual projection. This constitutes a substantial increase in workload and resource requirements.

In 2002, we were not yet a nation with large numbers of service members deployed to combat zones. Appropriately, VA continued to use separation data from the Department of Defense to project potential rates of utilization separating service members. Our FY2005 budget assumed that 23,553 VA patients (at a cost of \$81 million) would be veterans of the Global War on Terrorism. The number of these patients in 2005 is now estimated to be 103,000, so we are \$273 million short. This additional cost is a substantial but not a predominant (or even the majority) component of the increased medical care cost in 2005.

Fortunately, many are seeking routine services. Some require dental care that was deferred as they deployed for combat. Others require more intensive care for both the physical and psychological consequences of combat. About 60 percent of the combat veterans who have come to VA are reservists or members of the National Guard. Veterans deployed to combat zones are entitled to two

years of eligibility for VA health care services following their separation from active duty even if they are not immediately otherwise eligible to enroll at VA. Because of this, these combat veterans then come to VA in numbers much higher than if they were to separate from DoD without a combat history. The general DoD separation trends data available from the routine 2001 separation planning report could not anticipate the numbers of reserve service members who were subsequently activated and then separated from service.

In summary, the increased medical care cost in 2005 is nearly \$1.0 billion of which \$273 million (28%) is associated with veterans returning from the current combat theatres.

Questions have been raised about the timing of the information disclosed about VA's 2005 budget situation. I want to be clear that we continue to feel that we can meet the needs of timely, high-quality health care for veterans. In fact, I indicated this in my letter of April 5 to Chairman Hutchison of the Senate Subcommittee on Military Construction and Veterans Affairs, in which I stated that, "whenever trends indicate the need for refocusing priorities, VA's leaders ensure prudent use of reserve funding for these purposes. That is just simply part of good management."

In a similar fashion, at his confirmation hearing on April 7, 2005, then Acting Under Secretary for Health Perlin, testified to the Senate Veterans Affairs Committee that reserve funds were being used to meet operational needs in 2005. This generated some subsequent questions from the Committee, and in a letter on April 12, Dr. Perlin wrote that the projected carryover might be diminished to address operational demands on our system, including the care of returning combat veterans of Operation Iraqi Freedom and Operation Enduring Freedom, noting that "we do feel confident that VHA has sufficient resources for the remainder of 2005."

The following week, on April 19, VA staff met with Ranking Member and members of the minority and majority staff of the House Appropriations Subcommittee to discuss the Veterans Equitable Resource Allocation (VERA) model. During this meeting there was protracted discussion of the health system's financial status in 2005, including the management decision to reallocate capital funds for direct patient care. During that same week, I met with the OMB Director to update him on the current status and to alert him to potential issues for Fiscal Year 2006 suggested by preliminary and incomplete data. We agreed to monitor the situation as more complete and actual data emerged.

In May, we performed our periodic actuarial model update for FY2006 with more current and accurate data. This further validated the emerging phenomenon of increasing workload. This was discussed internally as part of the Department's mid-year financial review. In the first week of June, VA staff met with OMB staff for its annual mid-year management review where we discussed in general terms the implications of FY05 management decisions on the FY06 budget. Similarly, VA staff met on June 3 with majority staff members of the House and Senate Veterans Affairs Committee, where they had very candid dialog about the implications of the reallocation and use of funds projected for carryover into the base for the FY06 budget.

On June 23, the Under Secretary for Health offered testimony on the actuarial model and its limitations. Actuarial modeling for 2005 forecast a growth rate of 2.3 percent, and as of April 2005, VA was experiencing workload growth at the rate of 5.2 percent annually, explaining the need to reallocate funds and devote carryover funds for patient care. As discussed in the hearing, VA's 2005 increased medical care cost is nearly \$1.0 billion, which VA will manage by reducing the 2006 carryover balance by \$375 million and deferring \$600 million of non-critical capital expenses for a few months.

I think that the record shows that VA has been very forthcoming with information regarding both the status of our budget and the responsible management decisions we have made as 2005 unfolds. It is our first responsibility to provide the highest quality care to veterans. It is our next responsibility to be good stewards of the substantial resources entrusted to us for that care. While resources have been adequate to make reallocation decisions to meet the most essential needs in 2005, it is now clear that the budget picture for 2006 needs to be revisited. We are working with OMB to reach a satisfactory resolution for 2006 that assures VA is there for all eligible veterans.

After looking at what additional efficiencies may be possible in what is arguably the nation's most efficient health system, I believe that the additional resources relative to the President's Budget that are necessary to provide timely, high quality care to the Veterans in 2006 amount to approximately \$1.5 billion. This includes \$375 million to repay the carryover, nearly \$700 million for increased workload, and \$446 million for an error in estimating long-term care costs. The Administration will come forward to the Congress shortly with a proposal to provide VA the additional resources. This amount assumes enactment of the policies in the President's Budget. If Congress does not accept any of the policies in the President's Budget, additional resources will be needed.

#### **Planned Improvements:**

In a sense, VA and other Federal agencies like DoD who use actuarial modeling to project resource requirements two and one-half to three years hence push the performance envelope compared to private sector, which uses these data at one year. In fact, the 2.9 percent margin of error we experienced is far better than the 11 percent error that occurred when budgets were projected by inflating an historical base. Mathematically, at three years, a 2.9 percent margin of error is pretty good. Still, we recognize that the consequences are not.



In order to improve the model and budget process going forward, additional model inputs are required. We must figure out how to better approximate changes needed to compensate for the lag in data in our estimates. In addition, we need to do a better job of linking DoD experience with our input.

The development of the actuarial model has been an evolutionary process. It is a prerequisite for the data necessary for the Secretary's annual enrollment decision which matches enrollment levels to resource availability. Enhancements to the model include more detailed and robust adjustments for enrollee reliance, morbidity, and mortality, adding new data sources, and expanding the number of services modeled. Future planned improvements include access to data on enrollee's use of Medicaid, Tricare, and military treatment facilities, the integration of the VHA long-term-care model into the actuarial model, and modeling additional services such as dental care.

### **Conclusion**

Mr. Chairman, in closing, I believe that the VHA Enrollee Health Care Demand Model is a valuable budgeting and planning tool for projecting VA health care utilization. We look forward to working with you to ensure that we continue to provide timely and high-quality health care to our Nation's Veterans.

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# U.S. House of Representatives

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August 11, 2005

Honorable R. James Nicholson  
 Secretary  
 Department of Veterans Affairs  
 810 Vermont Avenue, NW  
 Washington, DC 20420

Dear Mr. Secretary:

Please find attached questions which were submitted for the record by the Honorable Michael R. Turner of Ohio for the hearing dated June 30, 2005 at 10:00 a.m.

I would appreciate your response to these questions no later than August 31, 2005.  
 Thank you for your kind consideration of this matter.

Sincerely,

  
 STEVE BUYER  
 Chairman

SB:dwc

**CONGRESSMAN MICHAEL R. TURNER (3<sup>rd</sup> OH)  
FULL COMMITTEE HEARING ON THE DEPARTMENT OF VETERANS  
AFFAIRS HEALTH CARE BUDGET**

**Thursday, June 30, 10:00 am  
Cannon House Office Building, Room 334**

**MR. CHAIRMAN – Thank you for holding this important hearing. Mr. Secretary, thank you for coming here today to address the fiscal situation at the VA. In light of the disclosure of the \$1 billion shortfall for needs at the VA this year, and your statement in your testimony that “in order to improve the model and budget process going forward, additional model inputs are required,” can you please describe in detail what additional model inputs your office is considering employing to improve budget forecasting?**

**Secondly, what is the actual increased cost of veterans returning from the conflict in Iraq to the VA, and what is the projection of the future medical needs, and costs of these needs, of the veterans returning from Iraq?**

**###**

**Questions for the Record**  
**Honorable Michael R. Turner**  
**June 30, 2005**

**Full Committee Hearing on the Department of Veterans Affairs Health Care Budget**

**Question 1:** In light of the disclosure of the \$1 billion shortfall for needs at the VA this year, and your statement in your testimony that "in order to improve the model and budget process going forward, additional model inputs are required," can you please describe in detail what additional model inputs your office is considering employing to improve budget forecasting?

**Response:** Each year, the Department of Veterans Affairs (VA) Enrollee Health Care Projection Model is reviewed to determine the most valuable improvements that can be incorporated into the model within established timelines. The current methodology is based on fiscal year (FY) 2004 actual enrollment, utilization and cost data and includes the following major improvements:

- The Master Enrollment File was significantly enhanced. VA added new data sources including social security death index; reclassified veterans into their correct priority; and received new income information from the Census 2000 long form to assign non service-connected (NSC) veterans to priorities 5, 7 and 8.
- Identified Operation Enduring Freedom/Operation Iraqi Freedom (OEF/OIF) enrollees and patients based on the most recent roster available at the time of the model update (end of FY 2004).
- Enrollment rates, the rate at which non-enrolled veterans enroll with VA, are now developed at the sector level (clusters of geographically adjacent counties) compared to county level previously.
- Some veterans will move after they enroll and it's important that the model account for expected veteran migration. VA and Milliman performed a study to develop a set of factors to account for the geographic migration of veterans.
- Analysis and development of rates at which veterans transition between priority levels after initial enrollment.
- Converted from VA's Cost Distribution Report (CDR) to Decision Support System (DSS) for VHA unit cost information.
- Veterans Health Administration (VHA) also assessed its management practices relative to other health care organizations (Degree of Community Management (DoCM)). Adjustments were made in DoCM factors to recognize markets with significant capacity constraints and improvements in ambulatory care practices.

Other technical adjustments were also made to other factors in the model such as morbidity and reliance.

### Hearing on the Department of Veterans Affairs Health Care Budget

**Question 2:** Secondly, what is the actual increased cost of veterans returning from the conflict in Iraq to the VA, and what is the projection of future medical needs, and cost of these needs, of the veterans returning from Iraq?

**Response:** The total costs of OEF/OIF Patients' treatment needs (including dental care) in millions of dollars from FY 2002 to FY 2006 are as follows:

FY 2002	\$7
FY 2003	\$12
FY 2004	\$84
FY 2005	\$354 (estimate)*
FY 2006	\$464 (estimate)**

\* The FY 2005 President's Budget assumed this cost would be \$81 million. The remaining \$273 million of greater than anticipated cost was included in the President's 2005 Supplemental Request.

\*\* The FY 2006 President's Budget assumed this cost would be \$188 million. The remaining \$276 million of greater than anticipated cost was included in the President's 2006 Budget Amendment.

## Snapshot of How VA Budget Shortfall is Hurting Veterans' Access to Safe and Timely Care across the Nation

*The VA claims that by shifting funds dedicated to replace old equipment and conduct maintenance the department can address its budget shortfall and meet veterans' demand for timely, high-quality health care. The following snapshots from across the nation reflect the stark reality of the budget shortfall on veterans' access to safe, high quality care.*

- **The 3 surgical operating rooms at the White River Junction VAMC in Vermont had to be closed on June 27** because the heating, ventilation, and air conditioning system was broken and had not been repaired due to the siphoning of maintenance funds to cover the budget shortfall.
- **The VAMC in San Antonio** could not provide a paraplegic veteran with a special machine to help clean a chronic wound because the facility did not have the equipment dollars.
- **The VAMC in Lebanon, Pennsylvania**, closed its Geriatric Evaluation and Management Unit which does extensive case management to help elderly veterans increase their functioning and remain at home.
- The Community Based Outpatient Clinics (CBOCs) needed to meet veterans' increased demand for care in the North Florida/South Georgia VA Healthcare System have been delayed due to fiscal constraints. The **Gainesville** facility has made progress in reducing its wait lists, but as of April there were **nearly 700 service-connected veterans waiting for more than 30 days for an appointment.**
- VA Medical Centers in VISN 16, which includes Arkansas, Oklahoma, Mississippi and Louisiana and part of Texas, have **stopped scheduling appointments** for many veterans who are eligible for care, pending available resources.
- Even though the **VA Palo Alto, California, Health Care System** has used \$3 million in capital funds for operating needs, as of March 1 more than 1,000 new patients had to wait more than 30 days for a primary care appointment. A third of these new patients had to wait more than 3 months. **More than 5,000 patients had to wait more than 30 days for a specialty care appointment. Roughly 1,400 had to wait more than 3 months.**
- The replacement of the fire alarm system at the **Loma Linda VAMC in California** won't be done this year because the facility is using most of its capital funds to cover operating expenses.
- **The White River Junction VAMC in Vermont** struggling with a \$525,000 shortfall in its prosthetics budget.

Because the FY 2005 budget is inadequate, the facility has not been allowed to hire 3 additional mental health care staff and 3 additional Registered Nurses for the ICU. Nurses in the ICU have been forced to work double shifts, which this Committee has found to be an unsafe patient practice.

- Even though the **San Diego VAMC** expects to exceed its goal in medical care cost collections, it will divert \$3.5 million of non-recurring maintenance funds to partially cover operating expenses, and has delayed filling 131 vacant positions for 3 months. The facility has a waiting list for patients of 750 veterans.
- Because the **Iowa City VAMC** had to shift maintenance funds and equipment funds to cover a **FY 2004 million shortfall of \$3.2 million** in medical care expenses in FY 2004, the facility is facing severe infrastructure problems and a larger **shortfall of \$6.8 million in FY 2005** that puts patient care and safety at risk. The facility wanted to spend \$950,000 in non-recurring maintenance funds last year to prevent a mechanical failure of the electrical switcher, which would close the facility, but was required to use those funds to cover a budget shortfall in medical care last year. **As a result in FY 2005, the VA must divert \$1.5 million of medical care funds to maintain the key electrical switchgear for the hospital.**

**Recently, a motor failed on a hospital bed, which the VA planned to replace but couldn't because of the shortfall, causing a fire with the patient on the bed.**

Fortunately the patient was able to get out of the bed safely, but the facility was forced to expend \$700,000 of medical care dollars to replace all the beds, which thanks to the diligence of VA staff lasted 7 years beyond their life expectancy. The facility could not use capital funds to replace the very old beds because the money had already been siphoned off to cover medical care.

To bring the shortfall down to \$6.2 million the facility has delayed hiring staff for 4 months. **The deliberate short staffing of nurses on the psychiatric ward -- as a means to correct the budget shortfall -- has forced the VA to cut the beds available for treatment in half.**

- **As a result of cost cutting measures to make up for the shortfall in FY 2005, the Portland, Oregon, VAMC is delaying all non-emergent surgery by at least six months.** For example, veterans in need of knee replacement surgery won't be treated because of the budget shortfall.

Since FY 2002, the **Portland VAMC** has had to use its equipment and non-recurring maintenance funds to cover medical care expenses. For FY 2005 the facility needed \$13 million for medical and clinical equipment but only received \$2 million.

The facility is reducing staff as a cost-cutting measure and is **now short at least 150 hospital staff, including nurses, physicians, and social workers.** As a result of budget cuts for staffing, the VA has **cut the number of medical beds available to care for veterans.**

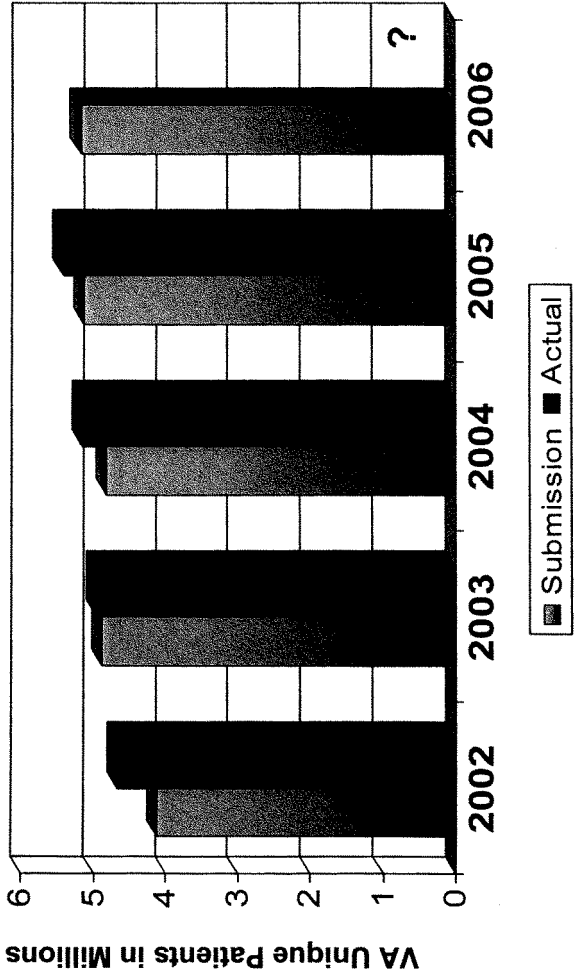
**Veterans in need of outpatient psychiatric treatment at the Portland facility are on a waiting list because of the budget shortfall.**

- The **Biloxi, Mississippi, VAMC** has diverted maintenance dollars to meet operating expenses for the past two years but the facility will not be able to balance its budget without reducing staffing levels at a time when the Gulf Coast Veterans Health Care System has approximately 100 new veterans seeking enrollment each week.

- Fifty percent of all the veterans receiving home health care through the **San Antonio VAMC** will now have to fend for themselves. This cost-cutting measure means that some 250 veterans, including those with spinal cord injuries, will no longer be provided this care.
- The **VA Connecticut Healthcare System** is facing a major budgetary challenge of sending veterans to non-VA facilities for hospitalizations because the VA has a shortage of beds to care for veterans and staff.
- Due to the budget shortfall, the **VA facility in Bay Pines, Florida**, has been forced to put veterans who have a service-connected illness or disability rating of less than 50% on a waiting list for primary care appointments. As of late April, some 7,000 veterans will be waiting longer than 30 days for a primary care appointment.



# VA Underestimates Health Care Workload Every Year



Source: VA Budget  
Note - FY 2005 "actual" column based on VA testimony June 28, 2005

## A WAR OF DISABILITIES

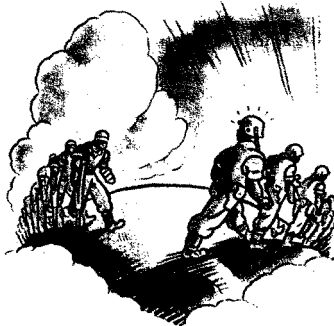
*Iraq's hidden costs are coming home*

*By Ronald J. Glasser*

**W**e know our wars through numbers. They sway public opinion, they make a military conflict seem either winnable or too dangerous to continue. How many of ours killed? How many of theirs? With our current war in Iraq, the number of U.S. dead hovers around 1,600; and even as the Pentagon has proven particularly reticent to dwell on casualties—whether in its refusal to allow photographs of caskets returning home or in its objections to TV programs in which the names of the dead are read—it continues to cite the relatively small number of deaths compared with the total troops as a sign of both the war's success and the limited threat to our combat and support units.

Yet the story of this war cannot be told solely in the count of its dead. Some 12,500 American G.I.s have been wounded in Iraq. Eight soldiers have been wounded for every one killed, about double the rate in Korea, Vietnam, and the Gulf War. The percentage of soldiers who have undergone amputations is twice that of any of our past military conflicts; nearly a quarter of all the wounded suffer from traumatic head injuries, far more than in our oth-

er recent wars. These are soldiers who have survived Improvised Explosive Devices (IEDs) and car bombs, who are living with mangled limbs, eye



injuries, and brain damage. The true legacy of this war will be seen not in the memorials to those lost forever but in the cabinets of files in the neurosurgical and orthopedic wards at Washington's Walter Reed Army Medical Center, in the backlog of cases at Veterans Affairs.

In 1965, when I was stationed at the Army hospital in Camp Zama, Japan, taking care of the wounded flown in daily from South Vietnam, I had what I thought was an epiphany. In the wards where the hundreds of wounded lay,

the beds all had small decals attached to their posts, insignias of the soldiers' different units; these insignias made me realize how vastly varied the experiences of this war were—each unit seeing its own unique form of combat, each soldier unable to know what was happening elsewhere. Since I believed that the entire war would eventually come medevacked to me in Japan, it was from the vantage point of the hospital, I thought, that one could understand Vietnam, both in its particulars and in its entirety. And after practicing medicine for thirty-five years, I still believe that injuries and their treatment can reveal what's really happening in a war.

In Vietnam the explosive charges that blew off arms and legs usually killed soldiers on impact. Penetrating chest wounds, ruptured aortas, shattered livers and spleens, collapsed lungs, internal hemorrhaging—these injuries, which typically accompanied severe extremity wounds, quickly proved fatal. Yet if an injured soldier was still breathing when he was put on a chopper, the odds were in his favor, as more than 97 percent of those soldiers survived. The combat medics, whose handiwork I would see when the wounded made it to Japan, saved lives on the battlefield through little more than emergency-room practices: maintaining airways, stopping bleeding, giving intravenous fluids to maintain vascular volumes and blood pressures, and calling in the medevac units, which rarely took longer than thirty minutes to reach a surgical facility.

Because of its success in Vietnam, medical care under fire changed little over the next twenty-five years. But as the way we fight military conflicts has evolved, so, too, has the type of medical care combat troops require.

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Military units have been reconfigured for maximum mobility and flexibility, enabling them to concentrate overwhelming force at a precise time and at an exact point of engagement. With increasingly smaller units fighting in difficult terrain all over the world, most likely behind enemy lines or along very long and sparsely defended supply routes, our wounded can seldom be medevacked in a timely fashion. Today's more agile and mobile medical teams need to be able to keep the wounded alive, without the possibility of evacuation, for up to seventy-two hours. They are trained in intensive care rather than triage and are ready to perform "damage control" surgeries of less than two hours anywhere troops travel. The military also has incorporated civilian advances in tourniquets, stints, and dressings that control hemorrhaging; high-tech starch concentrates have replaced bulky plasma bags and IV fluids. A recent *New England Journal of Medicine* article on the care of those wounded in Iraq and Afghanistan concluded that medical advances have decreased lethality even as weapons have become increasingly deadly. "Little recognized," writes the surgeon who authored the paper, "is how fundamentally important the medical system is—and not just the enemy's weaponry—in determining whether or not someone dies."

**T**he protracted urban warfare we are experiencing in Iraq has led to an unexpected number of wounded, in no small part because ongoing advances in both combat medicine and protective armor have led to surprising survival rates for these wounded. Soldiers now wear flak jackets made of ceramic plates embedded in Kevlar that are lighter, more flexible, and vastly more protective than anything our soldiers have worn before. This body armor protects the chest, back, and upper abdomen, preventing damage to the torso and allowing many soldiers to survive other serious injuries. During a battle along the mountain ridges of Tora Bora, Afghanistan, in 2002, a Special

Forces trooper was shot at close range by a Taliban fighter: three rounds from an AK-47 to the G.I.'s chest. The soldier dropped to the ground, and a few moments later stood up again to shoot and kill his attacker. According to those who were there, it was like seeing Lazarus rise from the dead. It was something that simply had never happened in Vietnam, or in any other war.

Saving more soldiers also means higher numbers of amputees and of those blinded and brain-damaged. Early in the war, during the race up from Kuwait through Nasiriya to Baghdad, the majority of wounds were from gunfire, mortars, and rocket-propelled grenades. Since then, insurgents have avoided direct confrontations, choosing to target support units and supply convoys rather than combat units. Almost 70 percent of injuries have been caused by roadside IEDs, rocket-propelled grenades, or car bombs. In April alone insurgents exploded 135 car bombs, more than half of which were suicide attacks. Unlike in our other wars, when soldiers were struck from ahead and above, soldiers in Iraq are hit from behind, below, and beside—often as they ride in vehicles that are not as well armored as their own chests. Nearly half of all U.S. troops wounded in Iraq since the fall of Saddam Hussein have been hit in the lower extremities; 25 percent have been injured in the hand or arm. Even for soldiers wearing Kevlar vests, the wounds from booby-trapped IEDs, which combine blunt, penetrating fragments and burn damage, are particularly difficult to treat long term. Body armor protects a soldier's "center mass," but the explosions shatter and shred arms and legs. A surgeon in the spina bifida clinic of the Minneapolis hospital where I now work recently returned from a tour of duty at a medical facility in Iraq. While there he had removed flak jackets from wounded soldiers whose legs and arms were barely attached but who were wholly unmarked from neck to groin.

The frequency of upper-extremity

injuries points to another phenomenon new to this war. Large numbers of patients seen within the military-hospital system have lost hands or arms and are in need of upper-extremity prostheses, which are more complicated and expensive than lower-extremity prostheses. Not all limb injuries result in immediate amputation. Whenever possible, military surgeons practice "limb salvage" to save extremities. But limb-salvage techniques—which involve skin and vascular grafts, placement of internal rods, and muscle-transfer procedures—are not always successful; they may take up to a dozen surgeries, and two years, before surgeons and patient give up and settle for amputation.

There has been an unprecedented incidence of facial and head injuries among survivors as well, another consequence of the particular physics of this war. IEDs, with their upward force, fire chunks of shrapnel and dirt up under military helmets, and those projectiles can cause severe facial and eye injuries, and penetrating head wounds, as well as damage to the central nervous system and muscle tissue. Moreover, shock waves from the makeshift bombs can prove as dangerous as the gravel, nuts, bolts, and jelled gasoline packed inside them. Kevlar helmets may protect against some projectiles, but, in a blast, their weight can add to injuries. "It's like a pan on your head, held on by shoestring webbing," an Army combat engineer explained. "When you take a hit, it rings your head like a bell."

Indeed, soldiers walking away from blasts have later discovered that they suffer from memory loss, short attention spans, muddled reasoning, headaches, confusion, anxiety, depression, and irritability. The military has given a new term to these pervasive, nonpenetrating head injuries: traumatic brain injury (TBI). For soldiers with TBI who remain functional, most will experience some form of brain damage and significant disability. The Army's 31st Combat Support Hospital in Baghdad, the only U.S. medical facility in Iraq with CT-scan capability and neurosurgeons, regular-

ly performs craniotomies—a procedure in which the skull is opened and the injured brain inside is examined. A combat surgeon there, viewing dead matter in the brain of a recently wounded soldier, said of his work, “We can save you. You might not be what you were.”

Army neurologists fear that severe brain injuries are being underdiagnosed, that more subtle neurological problems are being missed in soldiers not injured enough to enter the evac chain but who have been exposed to the types of concussive injuries prevalent in today’s form of urban warfare. In a March medical paper on casualties resulting from blasts, these injuries were said to be “notorious for their delayed onset.” When I asked a pediatric neurologist at my hospital about the severity of these concussive injuries for soldiers, he told me he spends a great deal of time worrying about life-altering concussions from helmet-to-helmet contact at local high school football games. Yet troops are within five to ten meters of enormously powerful explosions. He said, “You bet it scrambles their brains.”

**T**he hidden economic costs of the war in Iraq will not be found in the immediate treatment of the wounded or in increases to military death benefits. As expensive or labor-intensive as these might be, the largest monetary costs will involve the long-term care of thousands of severely and irrevocably damaged veterans; and these costs will only increase as the years pass. We are going to have to care and pay for a very large number of patients with what are, in any honest prognosis, lifelong disabilities. The price tag will be staggering. An above-the-knee computerized limb prosthesis—made of graphite and titanium, and battery powered with a microprocessor built in to better control movement—costs \$50,000. A below-the-knee prosthesis is priced at between \$10,000 and \$20,000, and then there’s the constant attention and ongoing readjustments needed to keep the prosthesis operational. The three types of upper-extremity pros-

theses offered by the military range in price from \$5,000 to \$100,000; patients are given one of each, in order to use them in different situations. In the past two years, there have been numerous multiple amputees who have needed double and triple prostheses.

Traumatic brain injuries also will create long-term economic problems. Not only are these injuries more likely to go undetected; they also leave veterans with lasting cognitive and emotional damage. Then there are the serious psychological problems, including post-traumatic stress disorder (PTSD), which are brought on by the unpredictable IED attacks, the protracted urban combat, and the high incidence of casualties. A *New England Journal of Medicine* study from July 2004 found that roughly one in six soldiers who had served in Iraq suffered from major depression, general anxiety, or PTSD; many expect the numbers to go much higher.

Right now the majority of casualties, including amputees, are kept within the Department of Defense’s military-hospital system—embedding the costs inside a mammoth military budget of some \$600 billion annually. The DOD can and does pay for all the prostheses; it can order same-day MRIs and CT scans of the head and neck. It recently opened an amputee care center at Brooke Army Medical Center at Fort Sam Houston, Texas, that will provide state-of-the-art care for service members who have lost limbs in Iraq and Afghanistan. In addition, a new multimillion-dollar, 29,000-square-foot amputee training facility is being built at Walter Reed.

But the wounded stay within the DOD military health-care system only as long as they remain on active duty. Every wounded soldier will soon become a veteran and will—unless he or she is old enough for Medicare or miraculously lucky enough to find a managed-health-care company that will take on patients with extreme pre-existing conditions—be forced to receive any ongoing care through Veterans Affairs. There is little to suggest that the VA—an overburdened and underfunded system—can handle the

wounded from Iraq once they are released from Department of Defense care.

The VA now serves 7 million of the country’s 25 million veterans; in the last year alone, the VA provided 6,000 new prostheses and performed more than 40,000 adjustments. The average wait for a VA decision on an initial claim for disability benefits is 165 days; to rule on an appeal of one of its decisions, the VA takes, on average, three years. (In the last ten years, some 13,700 veterans have died as they were waiting for their cases to be resolved.) In Minneapolis the waiting period for an orthopedic appointment at a VA hospital can be more than six months, and patients there have been told to expect a further decrease in services over the next budget period. The VA needs more money, and its claims and appeals process needs an overhaul. Yet this administration hasn’t adequately increased funding to the VA to deal with the influx of new veterans from Iraq. Of the 290,000 veterans of Iraq and Afghanistan who had left active duty by January 2005, 22 percent have already sought treatment from the VA; more than a quarter of them were diagnosed with some form of mental disorder. At this time, more than 1 million have served in these wars. The GAO recently found that six of seven VA medical facilities it visited “may not be able to meet” increased demand for PTSD. Hundreds of billions have been given to the Pentagon to pay for this war; to pay for the war’s aftermath, VA discretionary funding for 2006 is to be increased by only one third of 1 percent.

“Based on what we should be doing, the VA is simply underfunded,” former Georgia senator Max Cleland, a triple amputee from the war in Vietnam and head of the Veterans Administration under President Carter, told me. “The budgetary constraints put into place by this administration’s tax cuts have proved a disaster for the whole system. The VA can’t handle what they have to do now; how are they going to handle the flood of physical and emotional casualties, many of whom will be the responsibility of the VA for the rest of their lives?”

Ultimately, if the Bush Administration continues its refusal to accept the realities of this conflict, the most enduring images of the Iraq war will be the

sight of legless and addled beggars on our street corners holding cardboard signs that read: IRAQ VET. HUNGRY AND HOMELESS. PLEASE HELP. ■

out to foreign trade, millions of American workers are without the familiar opportunities that once were their livelihood.

"Trade is a little bit like war," says Robert LaLonde, a professor of public policy at the University of Chicago. "Fighting World War II is a good thing. It's good for the world, and it's good for the United States. But for the people who got killed, it was clearly bad. That's what trade is like."

Bush, a war president who has avoided the trenches himself, mentioned TAA every week in the run-up to the election, invoking retraining as a way to transform the losers of the old economy into the highly skilled, high-wage winners of the new. Created in the 1960s to pacify unionized manufacturing workers, who even then had a glimmer of their impending extinction, TAA offers qualified unemployed workers up to two years of training in "high growth" fields, extended unemployment compensation, a 65 percent subsidy for health-insurance premiums, and, for older workers, a modest form of wage insurance. Yet the vast majority of Americans who have sacrificed their stable, decent-paying jobs so that we can buy cheap clothes and luxuriate in capital gains have received little help from the program. TAA is frequently disbursed ineffectively or not at all to workers forced into early obsolescence due to free trade, and it does nothing to address the vanishing of white-collar jobs. For more than forty years, the program's real success has been as a political tool: it has kept America from the precipice of protectionism and helped to preserve the root of the very injustice it was meant to heal. When it is distributed, TAA is an aid package that costs the government, on average, \$4,464 per worker. For many Republicans, economists, and corporate executives, that is a small price to pay for keeping free trade politically feasible.

When a company cuts its workforce, typically the union or the company itself files a TAA application with the Department of Labor on behalf of laid-off

## TRADING DOWN

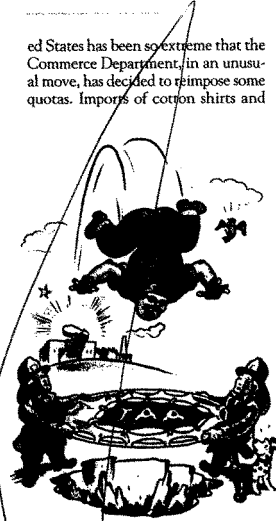
*The U.S. shortchanges its outsourced workers*

*By Erika Kinetz*

At a rally in Rochester, Minnesota, just before last November's presidential election, George W. Bush paused to congratulate Mrs. Michele Clements, wife and mother of two, who had returned to her local community college to study law enforcement after the electronics-manufacturing plant where she had been working shipped her job overseas. "Don't clap for me, clap for her. She's the one who made the decision to go back to school," the President told the audience. Clements's example allowed Bush the opportunity to extol the restorative powers of Trade Adjustment Assistance (TAA), a government program that offers job retraining and an array of benefits to workers deemed to have lost their jobs due to foreign trade. "Yes, we can't pass a law that says somebody has got to want to improve themselves," Bush continued. "But the role of government is to say, Here's an opportunity, here's a chance."

Following the expiration of global quotas on textiles at the beginning of this year, many more American jobs are under dire threat from foreign competition. In the last decade, 877,000 American apparel and textile manufacturing jobs have vanished; now the sectors' remaining 489,500 workers face an equally bleak future. Already the flood of Chinese goods into the Unit-

ed States has been so extreme that the Commerce Department, in an unusual move, has decided to reimpose some quotas. Imports of cotton shirts and



blouses from China were 1,250 percent higher during the first three months of this year than they were during the same period in 2004; imports of cotton trousers surged 1,500 percent; underwear, 300 percent. At least seventeen U.S. textile mills have already gone under in the first quarter of this year, and 40,000 textile- and apparel-manufacturing workers became unemployed. As manufacturers have moved their businesses overseas or lost

Erika Kinetz is a regular contributor to the New York Times and the International Herald Tribune.